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**No. 391**

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19 October 1983

## CHINA REPORT ECONOMIC AFFAIRS

No. 391

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## ECONOMIC PLANNING

### INDUSTRIAL DEVELOPMENT MUST BE PRECISELY CALCULATED

Beijing TONGJI [STATISTICS] in Chinese No 7, 17 Jul 83 p 10

[Article by Chen Gang [7115 6921]: "Accurately Compute and Appraise Growth Rate, Proportionate Relations and Economic Results in Industrial Production"]

[Text] A most important task of industrial statistics is to check periodically the implementation of the plan as regards the rate of economic growth, the proportionate relations and the economic results in industrial production, and to regularly analyze the new conditions and new problems arising in the course of plan execution. For this purpose, it is necessary to earnestly study and improve the set of norms and methods of computing industrial statistics, and, based on the accurate computation and reflection of true conditions of economic growth, proportionate relations and economic results, make the necessary adaptations required by the day by day growing needs of the industrial economy.

What norms are we to apply in computing the economic growth and proportionate relations in industry? For a long time past, the departments in charge of plan statistics and economic administration have all along used the norm of gross value of industrial output to compute economic growth and proportionate relations. This is very effective for prompt information on conditions and for guidance of production, but in actual practice quite a number of drawbacks were found in using the gross value of industrial output, because this value comprises two things, the value of material consumed and the newly created values. The value of material consumed accounts for about two-thirds of the gross value of industrial output and the newly created values account for about one-third, so that the calculations contain much duplication. The economic growth figured on the basis of gross value of industrial output is not true economic growth, and using these figures to explain economic growth is not conducive to the reduction of material consumption. Using the gross value of industrial output to compute proportionate relations can also not accurately reflect the proportionate relations between industry and agriculture or between the various branches of one industry, because of the differences in the value of material consumption as it occurs in the various industries. To remedy this situation it is in our opinion necessary that we make an accurate

appraisal of the important role of net value of industrial output as a norm and that we actively create the favorable conditions for a transition from gross value to net value of industrial output as our principal norm. The net value of industrial output is the value newly created by the industrial enterprises. It does not include the value of material consumed, and there is no duplication of any factors of computation. If we use it to compute economic growth, it will reflect the increase in industrial products, as well as economies in material consumption. It will enable an integration of increased production with economies in production and of economic growth with economic results and therefore yield a more truthful picture when used to compute the economic growth rate. In using it to compute proportionate relations, it will eliminate the effects of unequal proportions in the values of material consumption in the various industries and can, therefore, fairly accurately reflect the real conditions of the production components as they differ between various industries. Of course, a norm of net production value is very much influenced by pricing policies, its computation is rather complex and as to its sources of data, it is restricted to the accounting reports. These problems need further study and improvement in actual practice.

The transition from gross value to net value of output as the principal norm is not only a reform of the norm structure of plan statistics, but will also need a transformation in the guiding ideology of economic management and in economic patterns, and for these reasons will require a preparatory process. During that period, it will be necessary, first, to carry out widespread propaganda on the meaning, purpose and role of net output value as a norm, to have the leading cadres at all levels and the numerous economic personnel understand the use of net output value as a norm in managing and guiding production. Second, through the launching of a pilot project, we must improve the methods of computing the net value of industrial output, establish a statistical system for financial affairs in enterprises and also study how to solve the problems of providing all data accurately and promptly, how to eliminate the factor of changing prices, and we must also unify the systems of statistical accounting and bookkeeping. Third, we must institute a one-time training of the leading cadres at all levels of the responsible departments and industrial enterprises and of the numerous planning, statistical, financial, accounting and other economic personnel. In short, we must actively create the favorable conditions that will enable net output value to fully play its role as a norm in our economic management of industry.

Finally, what norms are to be used for the comprehensive appraisal of the economic results in industry? This is another important question which has the planning and economic administrative departments at all levels extremely concerned. Since last year, six government units, among them the State Planning Commission, the State Economic Commission, the Bureau of Statistics and the Ministry of Finance, jointly decided on 16 major economic norms for the comprehensive appraisal of economic results in various areas and in different departments of industry. This has important consequences on strengthening industrial management and on raising economic results. However, in actual practice there still exist

many questions that require further study. For instance, by what method can we compute the economic results achieved by scientific and technological advances in industry? How can we determine whether an industrial product meets a social need? How can we establish an organic integration of the norms for macroeconomic results with the norms for microeconomic results with the norms for microeconomic results, and, furthermore, how can we establish a linkage between the plan demands of these norms with the various economic interests? How can we improve and perfect the methods of comprehensive appraisal of economic results in industry? etc., etc. Concerning these problems, it is also necessary to constantly sum up experiences in actual practice, to investigate them most penetratingly and to conscientiously study how to resolve them.

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## ECONOMIC PLANNING

### INITIATING NEW ASPECTS OF STATISTICAL WORK

Beijing TONGJI [STATISTICS] in Chinese No 7, 17 Jul 83, pp 1-4

[Article by Li Chengrui [2621 2052 3843] Rev'ed from a speech given at the Central People's Broadcasting Station on 15 May 1983: "Discussing the Initiation of New Aspects in Statistical Work"]

[Text] Initiating a new aspect in statistical work is the important task that confronts us. What then is the role of statistical work in the socialist modernization drive? What is initiating a new aspect in statistical work and what is its meaning? What must we do to bring about a new aspect of statistical work? I now intend to discuss these questions.

#### I. The Role of Statistical Work in the Four Modernizations Drive

Statistics is a specialized work and a specialized science, but it is closely related to every single individual. As a household spends its days, the head of the family will only be able to arrange things by having "a little calculation table" in his head, figuring out income and expenditure. However, the affairs of a single household are fairly simple and in general will not require statistical work. Administration of a whole country is much more complex; how many people are there, how many births and deaths per year; how many enterprises, how much of what kinds of products are produced, what is consumption, how much exports, how much imports, how much are the reserves; how many schools and cultural institutions of different kinds are there, how many talents of what different categories can be trained, etc., etc. For all these questions, specialized personnel must engage in statistical work, collect and collate comprehensive and detailed statistical data, which alone enable the state to make policy decisions that are consistent with the realities and to check the implementation of its policies. It is precisely for this purpose that every country establishes a special statistical organization. In general, the more economically developed and the more socially advanced a country is, the more must it strengthen its statistical work. Statistics is more important for socialism than for capitalism. Lenin once pointed out: "Calculations and supervision will 'properly readjust' the first stage of the communist society and will be the major condition necessary to allow it to operate correctly."

Why is statistics playing such an important role? It is because every objective thing has its qualitative and quantitative aspects. Statistics is reflecting and studying the quantitative aspect in the dialectical unity of quality and quantity of the economic phenomena of society, keeping abreast of the quantitative manifestations, quantitative relations and quantitative limits of all kinds of things; this is an important aspect of our correct perception of objective things. Comrade Mao Zedong constantly advocated always "having figures in one's head," having a good idea how things stand. He said: "In all circumstances and problems, one must always be sure to pay attention to the quantitative aspects and must get a fundamental quantitative analysis. Every quality is also a manifestation of a certain quantity and without quantity, there is also no quality." He also said: "We have many comrades who up to this day do not understand that attention must be paid to the quantitative aspects of things, do not understand paying attention to basic statistics and to the most important percentage ratios, do not understand paying attention to the quantitative limits of the quality of things and do not 'have any figures in their head.' As a result they will inevitably commit errors." These statements are absolutely correct. If a country has no accurate statistical figure, its affairs cannot be well administered. If a factory, a store or a school has no accurate statistical figures and the leadership no idea how things actually stand, it is equally impossible to have good management in these places.

Since the 3d Plenary Session [of the 11th CPC Central Committee], our country has instituted a policy of readjustment, consolidation, reorganization and improvements in our national economy and has reversed the senseless attitudes that had arisen under the "leftist" political line, so that now great changes in the proportionate relations in our national economy have been brought about. Comparing the statistics of 1978 with those of 1982, the relation between accumulations and consumption in the national income changed from a ratio of 36.5 to 63.5 to a ratio of 20 to 71. In the gross value of industrial output, the share of light industry to heavy industry changed from a ratio of 42.7 to 57.3 to a ratio of 50.5 to 49.5. In capital construction, productive investments and nonproductive investments (for housing, livelihood welfare, construction of municipal offices) changed from a ratio of 79.1 to 20.9 to a ratio of 54.5 to 45.5. These statistical figures demonstrate that our national economy is advancing on a healthy path of development. All these numerical relationships deserve further intensive study, in order to evolve reasonable limits that are consistent with our country's national condition and national strength.

In the course of the advances of our country's national economy, certain problems emerged. For instance, from the "Bulletin on the 1982 National Economy and the Results of Implementing the Social Development Plan," recently published by the Bureau of Statistics, we see: The gross value of industrial production in 1982 rose 7.7 percent, compared with 1981, but tax and profits from each 100 yuan of gross value of industrial output fell from 25.5 to 24.6 yuan, which is a decline of 3.5 percent and

signifies that industrial growth was fairly rapid, but economic results did not increase. The bulletin also reveals that as gross value of social production increased 9 percent over the preceeding year, and national income increased 7.4 percent, investments for capital construction increased 25.4 percent. This shows that investments for capital construction increased much too much and much too wildly. Only the use of statistical data can accurately reveal such problems and make them available for study and resolution.

As regards one enterprise, and in the same way for each enterprise in question, we can see from the statistical data on annual, monthly and weekly gross output value, net output value, product quantity and quality, labor productivity, production costs, capital, profits, etc., the results achieved and the existing problems.

A comrade in a leading position in the central government remarked that statistics is an indicating and a rectifying instrument and thereby meant that statistical work plays a very real role in our four modernizations drive.

## II. The Task and Substance of Initiating a New Phase in Statistical Work

In his opening speech at the 12th National People's Congress, Comrade Deng Xiaoping pointed out: "Our modernization drive must start out from the realities of China." To gain the needed comprehensive understanding of the real conditions of China, statistics is an indispensable and important method. In our opinion the chief objective and task of initiating a new phase in our statistical work must be: To reflect accurately, up to date, comprehensively and systematically the concrete realities of our country's national economy and of its social development, in the service of constructing a socialism of a uniquely Chinese character.

To achieve this goal, we must exert ourselves in the following directions:

1. Replenish the content of statistics and perfect the norm systems. According to the great tasks, the establishment of the material as well as of the spiritual civilization, set forth at the 12th National People's Congress, our statistical work must perfect two norm systems: one, the statistical norm system of the national economy and one, the norm system for social statistics.

Since the establishment of our government, there has been constant development of our statistics on the national economy, and a certain foundation has been built up there. We have also established and developed specialized statistics for industry, the building trade, agriculture, investments in fixed assets, communications, postal and telegraph services, commerce, foreign trade, goods and materials, commodity prices and on life data of the population. On this basis, we have developed comprehensive statistics, computing the gross value of the social product and the national income, and also compiled certain comprehensive balance sheets. However, the present computations for our national economy have not yet

been sufficiently perfected. As the central authorities in recent years focused attention on economic results, on technological transformation, on economic reforms, our economic norms proved not altogether suitable for all these endeavors. In the past, emphasis was on statistics of gross output value; in future we must also conscientiously compile statistics on the net output value. We must start out from the realities of the situation that we are facing and step by step create a set of a complete scientific system of norms that will reflect the fundamental conditions and processes of socialist reproduction and reflect the socioeconomic results.

Our statistics on social affairs, including such areas as population, labor, wages, education, cultural activities, public health, physical education, politics and law, have also already achieved a certain foundation and have already played an important role. However, they are still insufficient as a comprehensive and systematic representation of our country's social developments. Taking one example: Engels divided human activities into subsistence (such as eating, sleeping), developing (such as learning) and enjoyment (such as recreational activities). How much time then is spent by our people on each of these three kinds of activities? Many countries have statistics on this topic, but apart from certain particular cities, our country has not carried out any systematic investigations. The 12th CPC National Congress put forward the idea that simultaneously with the building of a material civilization, it is the intention to build up a spiritual civilization. In a spiritual civilization, items that belong in the sphere of raising the level of the people's education, science, culture and public health, can in general be expressed through statistical norms for social affairs. Those items that belong in the sphere of the moral level of the people will, of course, be difficult to represent numerically, but through statistics on social security, changes in that respect could be reflected in an indirect way. In future, we shall work hard to perfect the system of statistical norms for social affairs in order to formulate and check up on our plan for social developments and to solve various kinds of social questions. We shall also work hard to provide more complete statistical data on social development.

To perfect the two norm systems, we must strengthen comprehensive balanced statistics and also strengthen statistics on special industries. The statistics on special industries form the basis for comprehensive balanced statistics. Comprehensive balanced statistics, in turn, will promote compilation of more substantive and perfect statistics on special industries.

2. Transformation and perfection of the statistical system and its methods. We must impart a high plan-content to statistical investigations. Our country is a socialist country where all affairs are developed according to plan, and statistical work must also proceed according to plan. Every statistical investigation is a "project." It requires prior inclusion in a plan and must have a "plan assignment memorandum." Consideration must be given to whether there is an overall balance between the task and

the human, financial and material resources. We must calculate "input" and "output", and seek to achieve efficiency and economic results. In future, a plan must be worked out, listing the items for statistical investigations, some for 5 years and some annual, and after approval by the leadership organs, investigations should be pursued according to the plan. In general, the items designated for investigation and the report forms must not be added to at will, unless severe calamities or other unforeseeable circumstances make temporary supplements necessary. Only in this way can the quality of our statistical work be further enhanced and can our statistical norms be rendered relatively stable, thus creating favorable conditions for the use of electronic computers and for the establishment of a storage of statistical data.

We must render our statistical norms scientific in nature. At present, we must first determine standard categories of industries (departments) and standard categories of products. The systems of statistical computations, of bookkeeping and of business accounting must also be step by step rendered such that they will mutually dovetail, be well coordinated and mutually consistent.

We must have variety in the methods of statistical investigations. To have substantial content in our investigations, and allow a variety of economic patterns, demands that there be a variety of investigative methods. In future, in view of the new situation in our national economy, we must have more effective comprehensive reporting and must, simultaneously, work energetically to have instituted on a broad scale investigations by sampling, investigations of key points, investigation of typical cases and in addition also general surveys, by stages and in sectors, of the larger national conditions and of our national strength.

We must standardize the basic work of statistical investigation. All data obtained in statistical investigations come from the basic level. This requires joint efforts by the statistical personnel and the managerial personnel in the enterprises to have basic statistical work performed in a down-to-earth and painstaking manner, in combination with the reorganization of the enterprises, and to ensure the accuracy of the data. We must step by step, and separately for the various industries, formulate and arrange inspections that every link in this work is painstakingly done, including measurements and quality checks, inspection of original records, statistical notes, recordings and report forms, etc., to achieve a state of affairs where every level lives up to its responsibilities, all links are tightly interlocked, where there is basis and proof for every figure and where all figures are accurate and reliable.

3. We must expand the use of modern accounting and information transmission technology. If we are to meet the demands of a perfect system of statistical norms and accomplish the orderly compilation, transmission and storage of large quantities of survey data, we cannot do so without the use of modern accounting and information transmission technology. The Bureau of Statistics has already established an electronic computer center. In the course of the recent census, electronic computer stations

were established nationwide throughout the mainland, with the exception of Tibet, in 28 provinces, municipalities and autonomous regions, and a contingent of over 1,000 persons, technicians and supervisors, were trained and tempered in actual practice. At present, the comrades in the computer center and the computer stations are in the process of assiduously working day and night to complete the processing of all census data, covering our population of 1 billion people. From now on, we must extend the computer technology gradually to all spheres of statistical data processing. We must bring the great capacity and speed of computers into full play, and also their superiority for in-depth and detailed processing of statistical data. While we strongly emphasize the use of modern computer technologies, we are not at all excluding manual calculations. We cannot do without the abacus, which is still faster for simple additions. The census report published in October 1982 was mainly computed by abacus.

4. We must perform well in giving statistical services and in supervisory work. Statistical work will from now on become more efficient in rendering service to leadership organs at all levels, and will also actively and progressively extend its sphere of service and play an increasingly important role. All statistical material that is not of the nature of state secrets will be published in accordance with predetermined limits and procedures, to be available for public use. The Bureau of Statistics will publish annually a "Report on Results in the Implementation of the National Economic and Social Development Plan," will annually compile a "Statistical Yearbook of China" and a "Chinese Statistical Abstract" and publish quarterly and monthly important progressive statistical figures in the TONGJI monthly and other magazines and in newspapers. The various localities shall also publish certain of their statistical figures within a predetermined scope. This is necessary in order to raise the level of our country's economic management and in view of the people's right to exercise control and supervision in economic and social affairs. Statistical service and statistical supervision are two inseparable aspects. Recently, relevant documents of the CPC Central Committee and speeches by leading comrades have referred to the supervisory role of statistics. We are determined to uphold the principle of seeking truth from facts, to reflect the implementation of the national policies and plans, especially the changes in economic results, to promptly reflect and expose any units or individuals that violate the national policies and who sabotage economic discipline or create losses and wastage, and we are determined to bring the supervisory role of statistics into full play.

### III. How To Initiate a New Phase in Statistical Work

1. We must establish a centralized unified statistical system and a strong and vigorous contingent of statisticians. The accomplishment of statistical tasks must be organizationally guaranteed. The centralized and unified nature of the statistical organization is determined by the special features of statistical work. The "Resolution on Strengthening Statistical Work," issued by the CPC Central Committee and the State Council on 4 April

1962, sets forth clearly and definitely: "A strong and vigorous centralized unified statistical system shall be established." In line with the principle expressed in this resolution, and integrating the experiences of 20 years with the present conditions, to establish a strong and vigorous centralized and unified statistical system is the extremely important precondition for the initiation of a new phase in statistical work.

At present, organizational reforms are just being carried out in all localities. The CPC Central Committee and the State Council have pointed out in relevant documents: In the course of organizational reforms, the statistical supervisory departments must be greatly strengthened and perfected, and must not be weakened. The more the economy develops and the more important information transmission becomes, the more must statistical departments be strengthened. This is an inevitable trend of developments. The statistical contingent that must be strengthened comprises the statistical personnel of the state statistical organization, of the statistical organizations of the various departments, as well as those in basic enterprises and industrial units and in the people's communes. We must energetically strive to render our statistical cadres more revolutionary, better educated, professionally more competent and younger in average age. We must continue to effectively assess and determine the designations of our statistical cadres and further stimulate their enthusiasm for theoretical studies and for intensive studies of professional skills.

2. Develop education in statistics as in a special field of study and raise the level of scientific research in statistics. We must develop in a planned way high- and medium-level specialized education in statistics and progressively carry it out according to an overall program. We must also employ a variety of methods to train currently serving cadres, and continuously raise the ideological and professional level of statistical personnel. We must also disseminate statistical knowledge among all trades and professions, especially among personnel in the economic administration. Shortly, the Bureau of Statistics and the Central Television Station will jointly conduct a television course in basic principles of socioeconomic statistics, and that it is estimated as many as 600,000 participants will sign up for the course. This demonstrates that there is great enthusiasm for the study of statistics. Those who will engage in theoretical studies of statistics and those actually engaged in statistical work must have their feet firmly planted in the realities of our country, must sum up their own experiences, especially the new experiences since the Third Plenary Session, must also actively absorb the latest international achievements in statistical science and must make every effort to raise the level of scientific research in statistics.

3. Effectively institute statistics legislation. To ensure the smooth development of statistical work, to ensure that the accuracy of statistical material will not be interfered with, it is necessary to draw up clear and definite legal provisions on the tasks of statistics, on the rights, duties and responsibilities of all concerned, on statistical investigations, on statistical personnel, on penalties for violators of these legal provisions, etc.

Instituting a new phase in statistical work and the addition of new statistical tasks, must proceed according to needs and possibilities, distinguishing what is more and what is less important, what is more and what is less urgent, and must advance with steady steps in line with the actual capabilities.

Instituting a new phase in statistical work requires that all persons in leading positions at all levels attach importance to this work, that the numerous cadres and the masses give it their support and that statistics personnel at all levels work hard and do their best.

We hope that the leading comrades of party and state in all localities, all departments, all enterprises and industrial units will regard statistics as important tool to understand real conditions and to take reality as starting point in effectively working for the four modernizations. We hope that they will give even better guidance, will examine and support statistical work, will regularly assign tasks to the statistical departments, give them directives and provide statistical work with the necessary human, financial and other working conditions and support the statistical departments in their work of realistically reflecting conditions and in asserting their supervisory role.

We hope that the comrades who are in charge of economic administrations and who have general administrative, cultural and educational duties will enhance their knowledge of statistics by further studies, will closely cooperate with the statistical personnel, improve the accuracy of numerical data and will analytically use statistical material to raise the quality of their own administrations.

We hope the broad masses will give their support and cooperation to statistical work, help statistical personnel to do a good job at statistics and furthermore will use statistics to stimulate production and construction. Enterprises, shops and work teams should regularly make public and known to the masses their statistical figures on production and economic results. "As the table hangs on the wall, the figures speak out." The masses can see from the tables the discrepancies between various shops, workteams and individuals, learn to advance, spur on those lagging behind and to launch work competitions.

The large number of our statistical personnel struggle on arduously, working cautiously and conscientiously and achieving important contributions. These comrades are the unsung heroes of the four modernizations. Now, that we are facing a new situation and even more arduous tasks, our sense of glory and responsibility will rise to greater heights; we shall study especially hard to raise our theoretical and professional level, learn new abilities and contribute new achievements to the four modernizations.

To seek truth from facts is the lifeline of statistical work. Those engaged in statistical work must definitely reflect conditions as they truly are, one is one, two are two, good news is reported as good news, concerns are reported as concerns. The leading cadres and the broad masses must all firmly support the statistical personnel as they reflect

conditions as they truly are. We all must oppose boasting and exaggeration as we also oppose localism. Under no circumstances must we make false reports of work achievements to gain more bonus, or make untruthful reports of shortages of material to gain partial or local benefits. We are confident that following the further improvement in the workstyle of the party, a practical and realistic way of doing things will certainly develop in our style of work, and that the accuracy of statistical data will certainly be further enhanced.

Statistical work in our country must start out from the actual conditions in our country and go its own way. The third population census was a one-time modern statistical survey of a uniquely Chinese character conducted under a socialist system. Summing up and utilizing the abundant experiences from this one-time census is of major significance for the initiation of a new phase in statistical work and as a stimulus for our country's statistical work, getting it to advance on the way to modernization.

In order to realize the grand goal set forth at the 12th National People's Congress, let us join forces and exert ourselves in initiating a new phase in statistical work and thereby make our due contribution to building a socialism of uniquely Chinese character.

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CSO: 4006/739

## ECONOMIC PLANNING

### WANG DAOHAN ON SHANGHAI'S SUPPORT TO NORTHWEST

06030015 Beijing XINHUA Domestic Service in Chinese 0835 GMT 30 Sep 83

[By reporters Wu Fumin and Guo Lihua]

[Text] Shanghai, 30 Sep (XINHUA)—In accordance with the party Central Committee's strategic policy on developing the great northwest, Shanghai has been vigorously providing support and assistance to Xinjiang and Ningxia Autonomous Regions and Gansu, Qinghai and Shaanxi Provinces with its manpower, material and financial resources. During the first 3 quarters of this year, the number of provincial and municipal-level agreements between Shanghai and the latter for economic and technical cooperation already reached close to 200. Many industrial bureaus, districts, counties, institutions of higher learning and science research units have also taken the initiative themselves to sign several hundreds of cooperation agreements with counterpart units in these five provinces and autonomous regions in an effort to provide technical services and training to the latter.

Discussing this issue with XINHUA reporters, Shanghai Municipal Mayor Wang Daohan said: Shanghai City has been having economic and technical cooperation relations with the great northwest as early as during the early postliberation days. These relations have witnessed new development in recent years. Shanghai is a city that belongs to the whole country. Its economic development cannot be separated from the cooperation and assistance it provides to the rest of the country, including the great northwest. It is Shanghai's bounden duty to provide support and assistance to the great northwest.

Since the beginning of this year the Shanghai Municipal People's Government has sent a number of responsible cadres, scientists and engineers as well as professors and scholars to conduct on-the-spot studies in various localities of the great northwest. They have left their footprints everywhere, including south and north of the Tianshan Mountain, at the foot of the Qilian Mountain, and in the Qinghai Plateau and Hexi Corridor. Based on this investigation and study, Shanghai has signed a number of agreements for economic and technical cooperation with some of the provinces and autonomous regions in the great northwest. The agreements cover the following five areas:

1. Supplying technical consultation services. Shanghai will help some enterprises selected by the northwest region to carry out technical transformation

and improve economic management. 2. Shanghai will transfer some of its technologies to the northwest region or support the region with these technologies. 3. Providing support in technical manpower. Shanghai will select a number of working or retired experts, scholars and teachers and send them for short tours in the northwest to give lectures, exchange academic experiences and impart skills. 4. Helping train talented people. 5. Carrying out economic joint ventures in the form of compensatory trade. This calls for joint exploitation, development and use of the northwest region's rich resources of minerals, farm and livestock products and wild plants for the production of products in keen demand or popular on markets at home and abroad.

Of the nearly 200 agreements on economic and technical cooperation, those signed between Shanghai and Xinjiang are the largest in number. The 98 agreements between Shanghai and Xinjiang call for extensive cooperation between the two sides in light, textile, handicraft, machine and electrical, metallurgical, chemical, instruments and meters manufacturing and pharmaceutical industries, medicine and public health, transportation and higher education. Shanghai Jiaotong University has sent 3 groups of experts for study tours to Xinjiang this year to engage in 19 scientific research projects.

In undertaking economic and technical cooperation with Qinghai, Gansu and Shaanxi Provinces, Shanghai is giving every consideration to the fullest use of the latter's local resources of furs, hides, fruits, medicinal herbs and minerals and to helping them to expand and intensify processing and increase economic results.

CSO: 4006/020

AGGREGATE ECONOMIC DATA

SHAANXI INDUSTRIAL, COMMUNICATIONS DEVELOPMENT

HK301108 Xian SHAANXI RIBAO in Chinese 18 Sep 83 p 1

[Report by reporter Wang Hao [3769 8504]: "Encouraging Development in the Industrial and Communications Front in the Province"]

[Text] According to relevant departments of the Shaanxi Provincial Economic Committee: From January to August this year, the industrial and communications front in our province has fulfilled 68.9 percent of its annual target for gross industrial output value. This represents an increase of 15.3 percent compared with the corresponding period last year. From January to August, industry throughout the province has fulfilled 76.3 percent of its annual target for turning over profits to the higher level. This represents an increase of 26.41 percent compared with the corresponding period last year. In comparison, the increased rate of profits handed over to the higher level has clearly exceeded the rate of increase in output value. This shows: In resolutely implementing the policy of readjusting, the industrial and communications front in our province has not only gradually shifted from purely chasing after the target of output value to the orbit centered on raising economic effect in the guiding ideology of enterprise management, but has already produced notable results, and this is undoubtedly a fundamental turn. At present, the leading members as well as the broad masses of staff members and workers at various levels on the industrial and communications front throughout the province are making great efforts for the all-round raising of economic effect, and for better fulfilling the annual production target.

CSU: 4006/020

## AGGREGATE ECONOMIC DATA

### BRIEFS

**NINE CITIES IMPROVE ECONOMICALLY**--In recent years, the livelihood of the urban people in our province has improved day by day. In 1982, the average wages of all staff members and workers in nine cities across the province increased 23 percent over 1978 and the annual average per-capita income for living expenses of all staff and worker families was 431.2 yuan, topping the province's average figure by 5.7 percent. By the end of 1982, the average per capita consumption of vegetables, edible oil, beef and mutton, aquatic products, and sugar in these nine cities all exceeded the province's average consumption level. In the past 4 years, these nine cities have increased their investment in building residential houses by 21 times. In 1982, the average per capita housing area increased 26.8 percent over 1978. [Text] [SK010610 Changchun Jilin Provincial Service in Mandarin 2200 GMT 30 Sep 83]

**JIANGXI INDUSTRIAL OUTPUT**--Jiangxi's industrial output value from January through August this year totaled 6,788 million yuan, fulfilling 66.6 percent of the annual target and up by 8.4 percent over the same period last year. Industrial profits for this period totaled 222.3 million yuan, an increase of 21.3 percent over the same period last year. Profits turned over to the state totaled 118.55 million yuan, an increase of 17.7 percent over the same period last year. [Text] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 30 Sep 83 OW]

CSO: 4006/020

ACCOUNTING WORK EXPECTED TO RAISE ECONOMIC RESULTS

Beijing SHANGYE KUAIJI [BUSINESS ACCOUNTING] in Chinese No 7, Jul 83 pp 32-33

[Article: "Accounting Work Must Serve Raising Economic Results; Report of the Study Seminar at the Annual Meeting of the China Accounting Society"]

[Excerpt] The China Accounting Society held its 1983 annual meeting at Yantai in Shandong from 5 to 14 May. A study seminar was held on "Accounting Problems in Raising Economic Results."

At the conference, Comrade Xie Ming [6200 2492], vice president of the society and a consultant to the Ministry of Finance pointed out that the 12th Party Congress has shifted all economic work onto a course in which raising economic results is the central factor and that financial accounting workers should develop all of their professional activities around this central element. He also pointed out that, on the basis of actual conditions in present finance and economics, there are four areas of work that must be dealt with conscientiously in strengthening financial accounting work if we are to integrate readjustment of enterprises and economic restructuring. First, we must pay very close attention to carrying out the work of substituting tax payments for profit delivery and we must continue to do a good job restructuring financial management systems and financial accounting systems and integrate readjustment of enterprises and implement economic responsibility systems. Within enterprises, we must establish a set of management systems and economic accounting systems and use market information, accounting data and accounting methods in order to do a good job of analyzing economic activity and economic forecasting. We must participate in management policy decisions in order to serve raising economic results. Second, funds should be used in a planned and focused way; we should strive to use funds in a beneficial way and assure expansion of the economy in a planned way. Third, we must strengthen supervision of financial accounting, thoroughly implement financial accounting systems and maintain discipline in finance and economics. Fourth, an effort must be made to strengthen research on the theory of financial accounting, establish a system of theory and methods of financial accounting with Chinese characteristics with the central aim of raising economic results and bring it fully into play in initiating a new state of affairs in building socialist modernization.

The more than 150 representatives of the academic world and actual work at the conference engaged in enthusiastic discussions on accounting problems in raising economic results and raised the following arguments in a more clear-cut way.

1. There is a natural "blood relationship" between financial accounting management and economic results and financial accounting work must raise economic results. When people manage an economy, they strive to achieve as great results from labor as possible with the least consumption of labor possible. Economic results, if any, and their magnitude condition the rate of development of the society and the economy and the degree of impact on the people's material and cultural lives. This is a major sign for judging whether or not a country is prosperous and flourishing. Accounting arises out of the need for economic management, and, as economic activity expands, there is development of the components and modes of management and there is also a development of the functions of accounting. It has developed from its original functions of measuring and computation to ones of guiding and regulating economic activity and has gone on from these to ones of supervision and control. As a result, the formulation of the past to the effect that "accounting is an essential tool for managing the national economy" is no longer sufficiently comprehensive and precise. It should be clearly pointed out that accounting is an important component in economic management and that it is a type of management activity in which the basic mode is measuring the amount of currency and in which specialized methods are used to carry out accounting and supervision of economic work with the objective of raising economic results. In order to bring the functions of accounting management into play, we must, on a foundation of striving to do a good job of such traditional work as keeping accounts, balancing accounts and submitting accounts, bring the controlling function and the feedback function of accounting information fully into play and shift the emphasis of financial accounting as a whole in the direction of serving management and participation in policy decisionmaking, gradually developing such types of work as management analysis, forecasts of future prospects, goal planning, program comparison and budget control. Our nation is a socialist nation and we should require even greater economic results than under capitalism. As a result, we require that financial accounting management bring its functions fully into play, that it take raising economic results as its basic direction and goal and that it serve raising economic results.

2. Financial accounting work must handle the relationship between micro-economic and macroeconomic results correctly. Macroeconomic results and microeconomic results reflect the relationship between the whole and the parts between things. In a socialist system, both unity and contradiction exist between microeconomic results and macroeconomic results. If we advocate the theory of unity between macroeconomic and microeconomic gains and losses, we must oppose the tendencies to selfish departmentalism and decentralism seen in only settling small accounts but not settling large accounts and giving consideration only to the interests of one's own unit and not giving consideration to the overall interest. At the same time, we must overcome the corrupt practices of "eating out of the common pot" and of engaging in egalitarianism in which the initiative and enthusiasm of enterprise management

are neglected. Maintaining macroeconomic results is a basic principle of socialist financial accounting work. Financial accounting work must set out from raising macroeconomic results and a good job must be done raising microeconomic results in a down-to-earth manner. In the course of implementing various forms of economic responsibility system, we must in a planned and step-by-step manner establish and perfect economic business accounting systems within enterprises and implement quota breakdowns, putting them into practice at all levels, responding at the right moment, conducting periodic checks and combining rewards and punishments. We must strengthen supervision and internal auditing of financial accounting, conscientiously implement the state's policies on finance and economic and financial systems, manage and use funds well, bring control and supervision functions into play, do a good job of planning goals and management policy decisions, guarantee the socialist direction of the activity of enterprises and deal correctly with the relationship between value and use value, between microeconomic results and macroeconomic results and between the interests of the state, enterprises and individuals.

3. Accounting theory, accounting methods and accounting studies systems must be established on a foundation of striving for economic results and restructuring of financial accounting work must be studied and promoted in a comprehensive way. Since the Chinese Accounting Society has been established, gratifying achievements have been made in promoting academic research activity on accounting, a dynamic state of affairs has developed and an excellent beginning has been made of restructuring accounting. However, the long period of "leftist" error and the 10 years of internal disorder had very profound effects on accounting work and research on accounting theory that we must continue to put in order and overcome, striving to create a new state of affairs in uniting theory and practice. Under the guidance of the policies of uniting theory with practice, letting a hundred schools of thought contend, making the past serve the present and making foreign things serve China, we must study and draw from the experience of the theory and methods of accounting of the Soviet Union and Eastern Europe and of the Western world in a widespread way, carry out even more conscientious investigation and research, summarize our own accounting practices in our nation and establish a system of socialist theory and method having Chinese characteristics with the central aim of raising economic results. This will be a basic task of theoretical research work in accounting in the future. As restructuring of the economy proceeds, accounting management systems, accounting systems, accounting principles, accounting quota systems, business accounting methods and accounting course systems must be restructured under the guidance of leadership, in a planned way and in an orderly way. At present, we should join with enterprise reorganization work and do a good and practical job of reorganizing basic work in business accounting, having it reflect the overall situation, making sure data are true, provided rapidly, and overcoming such irregular phenomena as accurately reckoning false accounts and falsely reckoning true accounts. At the same time, we must do a good job of analysis and forecasting so that we can provide effective economic information in a timely way for management policy decisions.

4. We must intensify establishment of a financial accounting corps. In order to bring the functions of accounting management into play, raise economic results and adapt to the demands of new conditions, we must establish a financial accounting corps of sufficient numbers and of comparatively high quality. In cultivating a financial accounting cadre, we must implement a policy of combining dissemination and elevation and use methods involving various modes, various levels and various channels for vigorous cultivation of qualified accounting personnel. At the same time, we advocate expanding the means whereby financial accounting personnel can develop their skills through self-study. We must extend ideological education for the purpose of developing revolutionary ideals, professional ethics and great devotion among accounting personnel. Setting out from the actual state of our nation's finance and accounting corps, we must improve professional techniques and checking methods and speed up the work of evaluating titles for technical posts among accounting cadres. In addition, various effective measures must be taken to raise the position and function of accounting work, to ensure that financial accounting personnel will exercise their own functions and powers and to arouse the socialist initiative of the broad groups of financial and accounting personnel.

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CSO: 4006/718

## ECONOMIC MANAGEMENT

### CONFERENCE ON ENTERPRISE CONSOLIDATION HELD

HK300825 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 29 Sep 83

[Text] The provincial conference on enterprise consolidation convened by the provincial government successfully closed yesterday. Governor Wang Chaowen and Vice Governor Zhou Yensong attended the conference and delivered concluding speeches.

In accordance with the guideline laid down by the national forum on industrial and communications work, this meeting concentrated on the improvement of economic results and discussed in particular how to further promote the overall consolidation of enterprises and to enhance enterprise consolidation at a new stage through improvement of the quality of enterprises.

The conference emphatically pointed out that the current year was vital to enterprise consolidation. We must step up enterprise consolidation while ensuring good economic results. Various areas and departments must work out the plan and assign tasks properly so as to ensure that consolidation will be completed in all existing enterprises within 3 years. Those enterprises which have undergone consolidation and have passed inspection must not halt but continue their effort, strive for further improvement, try to become six-good enterprises, and do their best to create a new situation in all fields.

CSO: 4006/020

BRIEFS

**GUIZHOU INCOME TAX**--Since 1 May this year, the province has practiced the system of substituting taxes for the delivery of profits in state-run enterprises. By the end of August, state-run enterprises at all levels in the province have submitted a total of 172 million yuan in income tax to the state, of which 103.6 million yuan were levied in June, July, and August. [Summary] [HK031004 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 22 Sep 83]

**SHANXI REDUCES ENTERPRISES' DEFICITS**--Industrial enterprises in Shanxi Province have universally implemented the responsibility system of reducing deficits and increasing surpluses and achieved relatively good results. By the end of August, the number of enterprises sustaining losses was 53.8 percent less than in the same period last year and the amount of losses was 55.6 percent less than in the same period last year. The 275 enterprises which have turned losses into profits made a total profit of 16.32 million yuan. Moreover, enterprises in 28 counties have incurred no losses. In July this year, the Taiyuan City Economic Committee discharged leading cadres of the Taiyuan 1 May machinery plant, glass bottle factory, and enamel factory for poor leadership and management and for incurring serious losses and replaced them with new leading cadres. [Summary] [HK031006 Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 23 Sep 83]

**JILIN ENTERPRISE REORGANIZATION**--By the end of August, 703 industrial enterprises covered by the Jilin Province budget had reorganized their leading bodies, accounting for 60.3 percent of the total. Among the 712 enterprises incorporated into the 1983 plan for enterprise consolidation, 502--70.5 percent--had reorganized their leading bodies. After the reorganization, remarkable changes have taken place in these leading bodies. Compared with the situation before the reorganization, these leading bodies have become more capable, their average number of staff has been reduced by 14 percent, the average age of the leading body members has dropped to 45.3, a drop of 3.4. Meanwhile, the proportion of cadres with a high school education or higher has risen from 27.8 percent to 42.7 percent and the proportion of cadres with technical titles has risen from 21.2 percent to 32.1 percent. [Summary] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 1 Oct 83 SK]

**SHANDONG ENTERPRISE CONSOLIDATION**--By the end of August, among the 981 industrial and communications enterprises subjected to the first stage of enterprise consolidation in Shandong Province, 498 have passed assessment and been

approved. In the course of enterprise consolidation, focus has been placed on the 23 large and medium-sized enterprises. Compared with the corresponding 1982 period, in the first half of the year, these 23 enterprises netted 10.3 percent more profit and the profit and taxes delivered to the state by these enterprises increased by 3.7 percent. At the same time, attention has been paid to consolidating money-losing enterprises. In the January-August period, the number of enterprises operating at a loss was reduced by 197 and deficits decreased by 49 million yuan, compared with the corresponding 1982 period.  
[Summary] [SK030748 Jinan Shandong Provincial Service in Mandarin 1100 GMT  
1 Oct 83]

CSO: 4006/020

## FINANCE AND BANKING

### CIRCULATION OF CURRENCY IN SHANDONG PROVINCE

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 6, 4 Jun 83 pp 7-9

[Article by the Shandong Branch of the People's Bank of China: "Conditions and Problems of Currency Circulation; Survey of Currency Circulation During 1982 in the Markets of Shandong Province"]

[Text] In the first quarter of this year we organized over 30 basic-level banks and offices for a survey of the conditions of currency circulation. A careful survey and computation revealed that the amount of currency in circulation at the end of 1982 throughout the province was 3.75 billion yuan, an increase of 17.92 percent over the preceding year. In this amount, 2.7 billion yuan cash were held by the peasantry, accounting for 72 percent, and an increase of 20.9 percent over the preceding year; 280 million yuan cash were held by staff and workers and citizens in the cities, accounting for 7.47 percent, an increase of 8.95 percent over the preceding year; 620 million yuan cash were held by the treasuries of social organizations in towns and the countryside, accounting for 16.53 percent, an increase of 8.77 percent over the preceding year; the balance of 150 million yuan held by sundry others accounted for 4 percent, an increase of 15.38 percent over the preceding year. Through these investigations and this survey, the following major conclusions were reached:

#### 1. Normal Trend of Currency Circulation in the Market

Following the readjustment and reform in our national economy, industrial and agricultural production in our province attained further development, circulation of commodities accelerated with every passing day and currency circulation in the market tended to become gradually normal. There was a striking turn for the better in the state of oversupply of currency, a situation that had been building up over many years. This was mainly reflected in the following conditions:

(1) Conditions of commodity supply, and procurement and marketing were getting better and better. Agricultural production in 1982 increased by 10 percent over the year before, and industrial production by 6.81 percent, accelerating the expansion of the sources of goods. In 1982 the turnover in retail sales and the volume of country fair trade increased 8 and 9.5 percent, respectively, compared with the year before. Non-staple foodstuffs and manufactured goods

for daily use were plentiful in the market, and there was a big increase in the sales of high-grade durable consumer goods and the means of production. Excepting a small number of famous brand goods, the means of production and building materials were in short supply. The supply of most commodities has already become abundant.

(2) Prices were basically stable. After commodity prices were adjusted in the markets throughout our province, the overall level of the retail prices in the economy rose 0.9 percent compared with the year before. The overall index of the list prices in the state sector rose 0.7 percent, the overall prices in country fair markets rose 3.6 percent and was somewhat higher in the cities as compared with the countryside.

(3) Savings in urban and rural areas increased significantly. In 1982 savings increased by 1.155 billion yuan, of which 78.6 percent were fixed savings deposits. According to an investigation of 14,373 depositors in the cities and the countryside, total deposits in 1982 increased by 1.836 million yuan, of which 16.4 percent were intended for day-to-day spending, 17.9 percent for the purchase of durable consumer goods, 14.9 percent for housing construction, 11.7 percent for the purchase of the means of production, 34.6 percent for expenditure over longer periods of time and 4.7 percent as reserve funds for old age and the education of children. The ratio of accumulative savings and savings as financial reserves was increasing, which was an indication of a stable market and a trend toward normalcy in the currency circulation.

## 2. New Changes in the 1982 Currency Circulation in The Market

(1) The scope of crosswise circulation of cash between town and countryside and between regions expanded, and the amount of currency absorbed by society was constantly increasing. Following the development of the commodity economy and the restructuring of the commodity circulation system, the markets in the cities and in the countryside were further opened up, and a marked increase took place in the direct exchanges and the double and treble trade transactions between town and countryside and between regions with regard to commodities of every sector of the economy, reflecting a new change in currency circulation. First, a sharp increase in withdrawal of currency from circulation by the medium and small towns. According to the statistical data from eight town banks, the average annual withdrawal of currency from circulation during the 4 years from 1975 to 1978 was 155.96 million yuan, in the 3 years from 1979 to 1981 the withdrawal was 292.56 million yuan. In 1982 alone the withdrawal was 599.92 million yuan, an increase of 285 percent over the average during 1975-78 and 103.2 percent over the average during 1979-81, and 34.8 percent over the figure for 1981. This amount of currency withdrawal by the cities from circulation represented, in addition to payments made by peasants for their purchases in the cities, a large amount of cash brought into the cities by individual rural commercial enterprises as they replenished their stocks from wholesale merchants in the cities, which was a markedly new development. Statistics of four commercial wholesale units in the Zhoucun district of the City of Zibo showed 3.82 million yuan cash taken in, in 1982, from purchases by small rural retailers, accounting for 20.5 percent of the total currency withdrawn from circulation during the whole year. The statistics for six

wholesale units in the City of Jining showed 6.2 million yuan cash taken in, in 1982, from purchases by small rural retailers, amounting to 10.7 percent of the total currency withdrawn from circulation during the whole year. These changes explained that in the course of restructuring the commodity circulation system, the role of the medium and small towns as commercial centers began to become prominent, which benefited the broadening of channels for commodity circulation and stimulated the normal circulation of currency.

Second, the expansion of inflow and outflow of currency into and out of our province, the large amounts of currency flowing out of the province. It is figured that a clear 330 million yuan flowed out of the whole province in 1982, which is equal to 3.7 times the figure of 1981 and accounted for 36.7 percent of the year's total amount of currency put into the market. The reasons for this large outflow of currency were: (1) the inflow of industrial products, (2) the inflow of grain and other agricultural products, (3) the inflow of the agricultural means of production, such as fertilizer, agricultural implements and large livestock, which all drastically changed the situation in our province, under which an inflow of currency had been greater than an outflow of currency over the years.

Third, the increase in the number of links in the chain of our cash circulation. After opening up town and countryside markets, the activities of transporting goods for sale increased. Many agricultural and sideline products which in the past went in a direct line from production to marketing, now go from production to be transported for sale, to final sales, to consumption, with cash transactions at each link. Out of the total business volume in the markets of the rural and urban fairs, 30 percent and 70 percent, respectively, were transported for sale. Calculated at this ratio, there must be about 800 million yuan of cash transactions taken up by transporting goods for sale in the business volume of rural and urban fairs. The goods that used to change hands only once, now change hands two or three times, making for more links in the crosswise circulation and slowing down return of cash to the banks. In 1981 there were 4.96 times, in 1982 4.6 times, and this meant a much greater capacity of society to absorb larger quantities of currency.

(2) The trend of relative concentration in the distribution of currency in the rural areas became much more pronounced. According to investigation of 28 counties and cities, the specialized households and priority households engaged in cultivation, breeding and industrial sidelines accounted for 20.1 percent of the total population, but held 37.12 percent of the currency, each person on the average holding 67.4 yuan of cash. The individual industrial and merchant households accounted for 5.1 percent of the population, holding 12.7 percent of the currency or the average of 102 yuan per person. The regular households of medium level income accounted for 50.2 percent of the population, held 38.4 percent of the currency or the average of 28.1 yuan per person. The specialized households, priority households and industrial and merchant households, all of a comparatively high level of income, together held an average amount of 76.3 yuan of currency, which was 1.7 times that of the medium level households. These differences were caused by the comparatively large differences that existed in labor, work skills and business management and

reflected the principle of distribution according to work in the currency circulation. It was the natural trend as the commodity economy in the villages develops.

(3) The amount of currency required by the peasants in production and in management continued to increase. At present, the vast number of peasants have firm confidence in the economic policies of the Party, and their zeal to invest in production is therefore very high. According to an investigation of 1,565 peasant households in 32 counties, their expenditure on the means of production bought in 1982 amounted to 478,000 yuan (of which 24.3 percent were bought from free markets at urban and rural fairs), an average of 61.3 yuan per person and an increase of 106.4 percent over the year before, the ratio of expenditure for commodities having risen from 20.9 percent in the preceding year to 27.9 percent.

The increased amount of cash held by peasants, apart from serving as a reserve for the purchase of means of production, was used in considerable amounts as working funds in production management. For instance, in 6,359 places in Changyi County, peasants as individual contractors in freely united groups engaged in "four-workshop" processing, wine making, wheat food processing, willow weaving, straw braiding, hophornbeam processing, light and textile industrial processing, and repair services. They took up 2.63 million yuan working funds for production and management, which accounted for 11 percent of the total currency in the hands of the peasantry in that county. As revealed by a sample survey, in the total amount of currency held by the peasantry of the whole province, the amount of about 750 million yuan of reserve for production purposes and management working fund was 124 percent more than the year before and accounted for an increase in the proportion of cash held by the peasantry up to 28 percent from the 15 percent in the preceding year.

### 3. Several Problems Revealed by the Currency Circulation

Currency circulation reflects commodity circulation. Observing commodity circulation through the way currency circulates reveals to us certain problems facing us and deserving our attention and efforts at solution.

(1) The movement of industrial products into the countryside has not yet radically improved, and the ratio of industrial products distributed in the cities as against those in the countryside is not altogether equitable. The total volume of merchandise which the trade organizations throughout our province provided to the villages accounted for the following ratios within the total sales by the non-trade organizations: 36 percent in 1978, 35 percent in 1980, 34 percent in 1981, and in 1982 although increased to 38 percent only slightly higher than in 1978. For various reasons, the variety of goods handled by the basic-level retail units in the villages is limited, in general only about 30 percent of that in the county corporations. As a consequence many goods are overstocked and slow-selling in the cities, but needed in the villages where they are sold out and no more available at the basic level. This state of affairs is most compatible with the doubled and redoubled increase in currency put into circulation in the villages in recent years, also with the 2.45 times increase in currency held by the peasantry in 1982 and with

the rapid rise in their purchasing power. We must continue our efforts to change the state of separation between town and countryside, of limited channels and of a multitude of intermediary links. We must bring the role of the cities as hubs of commodity circulation into full play, must have a concerted effort by industry and commerce, must open wide all avenues of trade, must further open up the markets in the rural areas and invigorate the circulation of commodities in the villages.

(2) With regard to certain important commodities, many areas are still not clear about the dividing line between planned management and market regulation and their scope. Many state-run economic departments are not yet apt at doing business under the setup of "more sectors of the economy, more channels of circulation, more variety in the forms of business management." The leading role of the state-run economy is not sufficiently developed, and this results in confusion in certain local markets. For instance, the contradiction of the supply of chemical fertilizer falling short of demand is a most conspicuous case. The chemical fertilizer which the peasants buy at county fair markets accounts for a very large proportion of such purchases. An investigation of 1,504 peasant households showed that 18.5 percent of the chemical fertilizer bought in 1982 was bought from free markets at urban and rural fairs, which was 177 percent more than the year before. Some chemical fertilizer changed hands several times before it reached the peasants and became very expensive. Another example is clothing. In 1982 individual clothing processors in Heze County imported from another province 17 million yuan of cloth at prices cheaper than the list prices of this province. As the retail price of their clothing was far below that of state or collective enterprises, the production and sales of certain clothes factories run by some communes and brigades of prefectures and counties ran into difficulties. Then there was the state-run commercial department of Jinan Municipality dealing in fruit. It did only wholesale business and no retail business and basically left the retail sales of such fruits as oranges and bananas to individual trades in the markets. As a result, prices rose steeply to the great dissatisfaction of the masses.

(3) The development that large quantities of grain are flowing in into sections of our cotton-growing areas, and large amounts of currency are flowing out. In the face of this situation, measures have to be taken as strict precautions against a rise in grain prices and a destabilization of the market.

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CSO: 4006/657

## FINANCE AND BANKING

### CREDIT TENTATIVELY SUGGESTED AS SPUR TO MODERNIZATION

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 1, 4 Jan 83 pp 18-20

[Article by Gong Sang [7895 2718]: "Industrial and Commercial Credit Work Must Contribute to Realizing the Sixth 5-Year Plan"]

[Text] The all-out effort to quadruple the gross annual national industrial and agricultural output value on the premise of steadily improving economic results from 1981 to the year 2000 is the common strategic objective of all fronts nationwide, including banking credit work. To assure the realization of this magnificent goal, we must collect sufficient funds. However, the problem is that funds are in extremely short supply now and this short supply is likely to last a while longer. The way to solve the problem is for the production and circulation departments to vigorously improve management and administration and adopt advanced technology, and work genuinely to notably improve economic results. Therefore, how to save on circulating funds, speed up the turnover of funds, utilize economic levers such as credit, and support the technological advance and transformation of enterprises, are the important tasks confronting industrial and commercial credit work.

#### Summarizing Experience, Continuing to Advance

Since the 3rd Plenary Session of the 11th CPC Central Committee, industrial and commercial credit work under the direction of the correct line of the Central Committee, has corrected the effects of "Left" deviation errors, resolutely implemented the guiding principles for the readjustment of the national economy, vigorously supported the development of light and textile industries and the service orientation for the readjustment of heavy industry, promoted the development of energy sources and communications and transportation facilities and the steady expansion of the circulation of goods. At the same time, industrial and commercial credit work has carried out some reforms, put into practice the principles of "differential treatment and supporting only the best" and "the issuance and withdrawal of loans in accordance with business volume," provided some incentives and some restrictions toward enterprises, broken the old convention of the people's banks only lending circulating funds, set up medium- and short-term loans for equipment and loans for capital construction, relaxed policy on and expanded the scope of providing circulating fund loans and medium- and short-term commercial loans for equipment, supported the development of many types of economic forms, and while keeping conditions

and controls, expanded the use of credit, let sellers offer credit on an experimental basis and developed trust services. In 1981, Chongqing and other local banks thoroughly familiarized themselves and assessed providing credit with the turnover rate of the funds as the key factor, set up reform pilot projects to try floating interest rates, and so forth. In short, since the 3rd Plenary Session of the 11th CPC Central Committee, industrial and commercial credit work has started off on the right track of healthy development with the improvement of economic results as the core.

In the last 2 years, as the production and circulation departments have begun to attach importance to economic results, the management of funds for industrial and commercial enterprises has been reinforced and the turnover of funds has been sped up. However, due to the consequences of the historically "Left" deviation errors, now too much is tied up in circulating funds for enterprises, turnover is slow and the lack of economic results is fairly serious. The total of circulating funds tied up in state and collective enterprises nationwide amounts to over 360 billion yuan, of which a fairly large part for overstocked goods, materials and commodities must be taken as a loss. None of the periods of days for the turnover of circulating funds for state industrial and commercial enterprises throughout the country has come up to the better historical levels. Now there are not enough funds for national production and construction. Yet, there is an oversupply of funds in the production and circulation sectors. This is a great waste.

The report of the 12th CPC National Congress pointed out that we must consciously utilize economic levers such as credit, guide enterprises in meeting the requirements of the state plan, constantly improve economic results, diligently develop production, vigorously open up, expand and increase channels of circulation, and strive to realize a basic turn for the better in the financial and economic situation within the next 5 years. Premier Zhao Ziyang in his speech to the All-China Scientific and Technical Awards Congress, pointed out that economic construction must clearly be established in the guiding ideology of scientific and technical progress and it should be implemented and embodied in making and using money, and money should be used in the development of new technology and then made again through new technology. According to the guiding ideology and principles described above, industrial and commercial credit work must continue to implement and carry out the policy of readjustment, reform, consolidation and improvement, and support the speedup in the national economy "to guarantee 4 percent, but strive for 5 percent growth" during the Sixth 5-Year Plan. Let us continue to insist on strict control of credit outlays with the improvement of economic results as the core, reinforce credit management, vigorously promote the technical transformation of enterprises with new technology, equipment, techniques and materials, get enterprises to produce and sell products that cater to the market demand with good quality and low price, and strive to speed up the turnover of funds with the prevention and management of the oversupply of products as the key point.

Implementing the Principle of Relying Mainly on the Planned Economy and Supplementing It With the Regulation of Market Mechanism and Constantly Improving the Economic Results of Credit Funds

As of now, China's national economy has undergone several years of readjustment, several major proportional relationships have gradually tended to be rationalized, and we have started on the right track of stable and sound development. In the next period, the focus of readjustment work will shift to improving and reinforcing the basic structure of the national economy with emphasis on energy sources and communications, resolving the product structure, enterprise organizational structure and technical structure within industry, and further realizing the rationalization of the economic structure. At the same time, to reinforce the management of circulating funds, starting in 1983, the targets for the turnover of circulating funds for state enterprises will serve as mandatory targets to bring the overall requirements into line with the national economic plan to speed up the turnover of funds from three to five percent in 1983 and require the banks to rationalize the organization of fund supplies and practice strict supervision. In accordance with this new situation and task, industrial and commercial credit work must conscientiously handle the problems of such relationships as speed to results, micro- to macroeconomics, production to circulation, technical adaptability of enterprises to market changes and credit management to local finances, and determine the investment of credit funds by the shift in the focus of readjustment work.

We must continue to vigorously support the production of products that are geared to the market demand with high quality and low price, promote technical transformation of the energy, communications and transportation industries and encourage the coordinated development of light industry. Banks must give active support to providing loans from circulating funds for that which is beneficial to developing production, vitalizing the domestic economy, expanding the sale of products and improving economic results, to increasing the production of products in short supply and changing over to the production of products consuming little energy and presenting little drain on raw materials, and to adopting new technology, techniques and equipment to produce new products. Concerning products of the mandatory plan, we must get enterprises to link production with marketing, study the situation promptly while carrying out their job, and readjust the plan promptly as they discover problems. Concerning products in the guidance plan and in the market's regulation role, through the reinforcement of information work we must wield the economic levers of credit to encourage and guide enterprises in increasing the variety of colors and designs, and raising the quality and lowering the costs of products. To guard against blind production creating new overstocking, we should consistently deny loans in the following cases: blind proliferation of projects, duplication of construction, production plans not yet ratified by the state, provincial, municipal or autonomous region planning commission; production and purchase of high-energy-consumption, poor-quality, high-cost products for which there is no market; products which have been superseded, rescheduled by the state, or which have not been acted on by any enterprise; or enterprises which the state has already determined to close down, to stop production for revamping, to merge with other enterprises, or to shift their lines of production, which still produce in old ways or which do not meet high-level targets. According to party and state credit policy, all of these should resolutely be denied loans.

We must actively support the commercial departments in aggressively marketing, expanding and increasing the commodity circulation channels, and replenishing and rationalizing the stocks according to the changes in market supply and demand. We must continue to implement and enforce the State Council's "Resolution on Opening Up the Channels of Commodity Circulation Between City and Countryside and Expanding the Availability of Industrial Products to the Countryside." With regard to extending credit to commercial departments to purchase industrial products, to carrying out the centralized procurement and allocation and planned commodity purchases in the administration of the mandatory plan, and to carrying out the commodity orders and selected purchases for the administration and market readjustment of the guidance plan, we must master the extension of credit according to the limits of different policies. In such areas as opening accounts, extending credit and settling accounts, we must assist the commercial departments in adopting various forms, opening up rural markets and blazing new trails for the availability of industrial products to the countryside. In 1983, we must strive to reduce the proportion of reserves of questionable commodities from the present ten percent to within three to five percent. Beginning this year, the Ministry of Commerce will put into effect the management responsibility system in its various forms such as state ownership and state management, state ownership and collective management, or contractual management regarding retail enterprises, and banks will be permitted to establish credit relationships with retail enterprises which hold certain self-raised circulating funds and which practice independent economic business accounting. In instituting state-owned and collectively run retail enterprises, a certain proportion of their after-tax profits should replenish the self-raised circulating funds. If losses occur, we must get the enterprises to adopt measures to make up the deficits and increase the surpluses. We must prevent the contractually run retail enterprises from squeezing on the circulating funds with apparent gains but actual losses.

Beginning in 1983, some of the purchase of agricultural and sideline products will gradually be shifted from pricing at the approved basic figures and higher prices for purchases beyond the set quotas, to pricing according to list prices and higher prices for purchases beyond the set quotas at a fixed ratio. The banks should be actively coordinated to provide funds according to the ratio of higher prices.

We must firmly support the leading role of the state-owned economy and the principle of developing diversified economic forms, and continue to support the development of urban industrial and commercial enterprises and catering and other service trades. At the same time, we must strengthen guidance and administration, assist the improvement of management and administration of collective enterprises, expand the avenues of production, clear circulation channels, focus on guiding enterprises to prevent and handle overstocking of products, clear up mutual arrears, make up deficits and increase surpluses, and actively replenish circulating funds.

While getting good use out of providing circulating fund loans, we must continue to work hard on providing medium- and short-term loans for equipment, focus on supporting technological progress and technological transformation in enterprises, and encourage enterprises to bring about expanded reproduction in

all its connotations based on the shift of production to new advanced technology. Loans should mainly be used to back up enterprises in adopting new technology, new equipment, new techniques and new materials, speeding up the development, improvement and updating of new products, increasing the production of undersupplied goods, improving the performance and quality of products, increasing the variety of designs and colors of products, improving the ability of products to meet emergencies in domestic and foreign markets, saving on energy, reducing the consumption of raw materials, improving the level of multipurpose use, introducing advanced technology and devices, and speeding up technological transformation in medium and small enterprises. We must give priority to supporting the development of energy sources, communications and production trades of everyday consumption goods. Except for guaranteeing continuous construction projects and state-approved key projects, loans should generally not be used for projects which simply expand the productive capacity of already available technology, should not be permitted for expanding the productive capacity of unsalable products in the market place, and should strictly guard against duplication of construction projects and blind development. At the same time, we must actively conduct trust work, develop proxy, commission, lending and consultant services, diligently raise and circulate funds, and support the development of production management and the furtherance of technological transformation.

At the same time, we must also strengthen the guidance and management of commercial and industrial credit which has been approved as beneficial to the development of production, the invigoration of the domestic economy and the expansion of commodity sales. On the one hand, we should use commercial and industrial credit to promote sales; on the other hand, banks should restrict credit and accounts to those who continue to produce poor-quality high-priced shoddy products.

#### Strictly Controlling Credit Disbursements, Dealing With Credit Work

To assure that credit receipts and disbursements are basically balanced, besides diligently continuing to collect social funds and speed up the turnover of credit funds, while promoting and guiding production and enlivening the domestic economy, we must strictly practice planned management of credit, control credit disbursements and strengthen the management of targeting circulating fund loans to various projects. Circulating funds for the expanding needs of production management of existing enterprises should do all they can to relieve overstocking of goods and materials and speed up the turnover of funds as a means to cut down on the amount thrown into credit funds.

To help enterprises realize a speedup in the turnover of funds, while speeding up the turnover of funds to specifically targeted enterprises, banks at all levels, jointly with the departments concerned, must set a reasonable amount of circulating funds and regulate the quota of turnover reserves available to enterprises for the year, actively spread the experience of the Shoudu Iron and Steel Company, and make sure the relevant fund targets are met for the basic units such as administrative or technical offices and workshops concerned at all levels of enterprises. We must coordinate changes in the credit funds to

the season and year, monitor the availability of floating funds and speed up the fund turnover targets for enterprises, supervise the improvement of fund management, and improve the results in the utilization of credit funds.

In coordination with enterprise consolidation, we must establish and strengthen the system of resident credit agents in plants for industrial enterprises. We must continue to try to control and keep track of providing loans with the marketing fund rate as the key factor and apply the method of floating interest rates. For commercial enterprises, we may adopt both methods of "separation of deposits and loans" and "integration of deposits and loans," chosen by the enterprise. Interest rates on "separation of deposits and loans" should be given proper preference. We should try to control and keep track of the targets according to turnover frequency and apply the method of floating interest rates to commercial wholesale enterprises dealing in industrial products.

To further strengthen credit management and the building of business, we must also concentrate on improving the economic results from the use of credit funds by actively developing economic information work; establishing and strengthening various internal management systems such as the credit review system and system of personal responsibility; conscientiously building up ranks of credit personnel; and especially strengthening credit management work in banks at the basic levels.

In short, the problem of industrial and commercial credit in the final analysis is an economic problem. We must deal with industrial and commercial credit work, conscientiously act in the spirit of the 12th CPC National Congress, and constantly study and analyze new forms, situations and problems in the development of the national economy. We must inspire enthusiasm, get thoroughly involved in practice, investigate and study, exert our strength to foster a course-setting force of advanced models, and spread out, constantly summarizing, popularizing and raising the level of bank credit work to contribute our strength to comprehensively initiate a new phase of socialist construction.

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## FINANCE AND BANKING

### CONTROL OF CIRCULATING FUNDS AFTER SHIFT FROM PROFIT-DELIVERY TO TAXATION

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 6, 4 Jun 83 pp 18-19

[Article by Dong Shuangyin [5516 7175 0603]: "Inquiry Into the Problem of Management of Circulating Funds After the Shift From Profit-Delivery to Taxation"]

[Text] The State Council has decided to institute in state enterprises a management system of the shift from profit-delivery to taxation, and to place the circulating funds of the enterprises under the unified management of the banks. This will not only greatly increase the work of the banks in managing circulating funds, but will also raise certain new problems for the banks in the work of managing circulating funds after the shift from profit-delivery to taxation.

It is therefore a new task for the banks to study and examine how to strengthen management of circulating funds after the substitution of taxation for profit-delivery, a task that must be given due attention.

#### New Problems Arising in the Management of Circulating Funds in Enterprises After Their Shift From Profit-Delivery to Taxation

The state-run industrial and commercial enterprises will carry out their shift from profit-delivery to taxation in the following way: While ensuring the all-round completion of the state plan, the enterprises will, according to regulations, pay the "four taxes and two fees," that is, the industrial and commercial tax, the readjustment tax, the income tax, the city construction tax and the fixed assets use fee and the circulating funds use fee. After deduction of all taxes and fees, the balance will be the net income of the enterprise. In this way the original method of supplying the state with its revenue by two types, namely profit and taxes, is changed to only one kind, namely taxation. This poses the following new problems for the management of circulating funds:

(1) Paying up income by the one method of taxation is of a strong legal nature and will in general leave no room for fluctuations or adjustments of plans. In the past, when carrying out a system of financial management with unified control over income and expenditure, the enterprises delivered up all their profits to the finance organs of the state. If losses had occurred, the

finance administration of the state would grant subsidies or provide a plan for adjustment of profits. Under these conditions, always having state finance as a "backing," even if an enterprise incurred losses, it could draw subsidies, and no difficulties would arise as to its circulating funds for production and turnover. However, after shifting from profit-delivery to taxation, all enterprises are themselves responsible for their own profits and losses. The tax is fixed by law, and if the enterprise suffers a loss as a result of poor management, the finance administration of the state will in general not grant subsidies or adjust the tax rate. The enterprise will still have to pay its tax according to regulations. As the enterprise will have to make prompt payment of tax, an enterprise that incurred losses in its operations will have to squeeze funds out of its circulating funds or will have to arrange a bank loan. This will not only cause difficulties as to the circulating funds for normal turnover of certain enterprises, but will have them use the circulating funds or bank loans to pay their taxes, thus seriously impeding a more effective use of their circulating funds.

(2) After shifting from profit-delivery to taxation, every enterprise will become an economic entity with independent business accounting; the state will no more invest its funds in it, and its sources of funds will be reduced. Although after the shift from profit-delivery to taxation, funds budgeted for the three areas of science and technology, funds for trial production of new products and depreciation funds will be left to the enterprises to use, the state will no more allocate funds for the enterprises and also not allot additional circulating funds. If an enterprise makes inappropriate use of these various special funds, it will not only adversely affect the technological transformation of the enterprise and the development of expanded reproduction, but will also cause a tightness in the capital funds of the enterprise and bring about a squeeze on the circulating funds for normal turnover. In the past, when an enterprise was short of funds for expanded reproduction, it would frequently be given "a prop-up from everyone," namely supporting investments from many quarters, such as the local finance department, the department in charge of the enterprise, the science and technology department, the economic commission, and the local government. However, after the shift from profit-delivery to taxation, such tasks as trial production of new products, control of the "three wastes," renovation and transformation of equipment, will have to be taken care of by the enterprise itself and to be resolved by means of its own financial resources. If the management of its funds for special uses are handled in a disorderly way, and if its funds for production development are inappropriately distributed and used, there is the possibility that the enterprise cannot raise any further funds as needed for these purposes, and this may easily lead to pressures to inappropriately transfer and use the circulating funds for normal turnover.

(3) Solving the problem of lack of sources of funds in case an enterprise suffers unexpected property losses or losses due to calamities. It is a common occurrence that industrial and commercial enterprises suffer property losses. This is because under a system that integrates regulation by plan with regulation by market mechanism, once the production plan is not properly set up, a situation will easily arise where products are of low quality but high in price, where raw materials and goods are left over and deteriorate, and where

these products (commodities) will largely pile up in stock because they will temporarily lose out against the competition. In the financial system of the past with its unified control over income and expenditure, the cut-price pricing, write-off of worthless rejects, adjustment of debits in these left-over low-quality overstocked products (commodities) would be taken care of by the finance organs of the state in their full accounting of assets and taking of inventories and in the check-up of warehouses, and made good at regular intervals. Such losses in property are not only a widespread phenomenon, but in certain enterprises the amounts involved in such losses are very large. For instance, in the 1979 accounting of assets and inventory, the losses in the circulating funds of the small industrial commodities in Jilin Province amounted to 240 million yuan. The enterprises that had to sell at cut-prices and report losses accounted for about 10 percent of all enterprises. A large number of commercial enterprises too had to sell goods at cut-prices, report stocks as worthless or report losses. In 1982 losses due to sales at cut-prices and write-off of worthless stocks in the Wujiao chemicals and pharmaceuticals in Jilin Province reached 83 million yuan, which were written off and made good by the state. At present the Commerce Department and its affiliated organizations in Jilin Province is still burdened with an accumulated stock of goods valued at 300 million yuan, and in addition will face losses of about 100 million yuan due to cut-price sales and write-offs. After the industrial and commercial enterprises shift from profit-delivery to taxation, the finance administration of the state will no more bear these property losses of the enterprises. If they do not solve their problems effectively, it is quite possible that pressures will arise to make use of the circulating funds for regular turnover. Furthermore, there would also be no source of additional funds should enterprises suffer losses due to natural calamities or due to bad debts.

(4) The difficulty to properly solve the "unpaid appropriation" and "apportioning" of funds for the enterprises in our society. Under the system of unified control over income and expenditure, the enterprises solved the problem of "unpaid appropriation" and "apportioning" by a method of adding these expenses to the cost (expenditure), which actually amounted to a consumption of profits of the state finances. However, after the shift from profit-delivery to taxation, the financial administration of the state is only responsible for the collection of taxes and is not concerned with the cost of production in the enterprises. If an enterprise still wants to bear these "apportioning" expenses, they will in fact have to be borne by the enterprise itself. This can also easily lead to squeezing on the circulating funds.

#### Some Opinions on the Control of the Circulating Funds After the Shift From Profit-Delivery to Taxation

First, the problem of fund sources to make good losses incurred by enterprises. In drafting measures for shifting from profit-delivery to taxation, the financial administration at all levels must have clear and definite provisions on fund sources available to solve losses in enterprises. Enterprises that are planned to incur losses must be advised of their loss norms, and a method of planned subsidies for such losses and a system of increasing the percentage of retainable profits by reducing losses must be adopted. As to enterprises with

business losses resulting from poor management, the responsible department or the finance department at the same level, may investigate and clarify the reasons and set a time limit to turn these losses into gain, while an appropriate amount of subsidy may be granted for the said period of time with the approval of the finance department. The finance department will in general not grant any subsidies to an enterprise that is planned to incur losses if a planned amount of losses is exceeded, or to an enterprise which continuously incurs losses after a set time limit is expired. Under these conditions it will frequently happen that the circulating funds will be squeezed on and diverted for other uses. What is to be done? According to our opinion, the enterprises will have to increase appropriately the proportion of production development funds within their net earnings after taxes, and retain about 20 percent from the production development funds to serve as "reserve for losses," to be able to make up for them in case of need, to avoid an impasse once a loss occurs, and to avoid squeezing on the circulating funds for regular turnover because of the lack of fund sources.

Second, the banks and the departments in charge of the enterprises must tighten their control of the use of special funds by the enterprises. How well the special funds in enterprises that have shifted from profit-delivery to taxation are managed has a direct bearing on the effectiveness of the use of circulating funds. In addition to the effective control of the circulating funds for regular turnover, the banks and responsible departments of the enterprises must also see to it that a well-conceived plan is adopted, that specially earmarked funds are used for their special purposes and that no overspending occurs with regard to the effective utilization of such funds as funds budgeted for three areas of science and technology, funds for the trial production of new products, depreciation and renovation funds, and funds for the control of the "three wastes" in enterprises that shift from profit-delivery to taxation. Management must also be tightened with regard to that part of the production development funds for turnover. It must be avoided that any surplus of production development funds is all indiscriminately used up in production. Emphasis must be on planning, on results, on making allowances for unforeseen circumstances, and a situation must be averted of "when there is money and we spend it all to the last penny, we may get into a tight spot when there is no more money about." We must save an appropriate portion of our financial resources as reserve. Once there is an opportunity to take up production of a new good product, to acquire an advanced technical equipment or there is need for a transformation or to control the "three wastes," we will have the ability financially to take care of these problems and will be able to ensure the development of our production.

Third, appropriately solve the problem of property losses. How are we to solve the problem of losses due to cut-price selling and write-offs for uselessly produced goods (commodities), overstocked in enterprises that shift from profit-delivery to taxation? In drawing up their plans, enterprises must give consideration to the factor of property losses, so as to be able to deal with such losses immediately when they occur and out of their own financial resources. It is suggested that the responsible departments of enterprises allot a certain proportion of funds (in general 10 percent of the total circulating funds of an enterprise) out of the earnings that may be retained,

as a reserve funds to make good such losses. This could be used to solve the problem of regularly or suddenly occurring losses and losses due to bad debts, and it would thereby be prevented that property losses have an adverse effect on regular production and would also prevent squeezing on circulating funds.

It is furthermore suggested that all enterprises that shift from profit-delivery to taxation subscribe to property insurance, so that they can be immediately compensated in case of losses due to natural calamities and be able to maintain regular business activities.

Fourth, prevention of "unpaid appropriation" and "apportioning" of funds. Enterprises that shift from profit-delivery to taxation are themselves responsible for profits and losses in their financial affairs. Although they are financially autonomous, the burden of being themselves responsible is a very heavy one. It is therefore necessary to stipulate clearly and definitely in economic legislation or provisional regulations governing enterprises that no department in our society is allowed to carry out any kind of "unpaid appropriation" and "apportioning" of funds; and that the practice of "all eat from the same big pot" with regard to utilizing funds must be reformed; and that the reasonable use of funds in enterprises that shift from profit-delivery to taxation must be ensured.

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## FINANCE AND BANKING

### SUBSTITUTION OF TAX PAYMENT FOR PROFIT DELIVERY

Yinchuan NINGXIA RIBAO in Chinese 30 May 83 p 2

[Interview of an Official of the Office of Substitution of Tax Payment for Profit Delivery of the Autonomous District by a reporter of this newspaper: "How Should State-Managed Enterprises in Our District Implement Substitution of Tax Payment for Profit Delivery"]

[Text] Question: What is substitution of tax payment for delivery of profit? What advantages are there to implementing substitution of tax payment for delivery of profit?

Answer: What we call substitution of tax payment for delivery of profit means that a state-managed enterprise changes from handing over its profit to the higher authorities to paying taxes on the basis of categories of taxes and tax rates specified by the state. Some of the profit after taxes is retained by the enterprise on the basis of a profit-retention level determined by the state. Another part, on the basis of the concrete circumstances of the enterprise, is handed over to the state, taking such methods as progressively increasing payment, payments at a fixed ratio, adjusted taxes, fixed quota payments (applicable only to mining enterprises) and contract fees. On this basis, the distribution relationships of the state and state-managed enterprises can gradually be fixed through the means of tax revenues.

Implementing substitution of tax payment for profit delivery is advantageous for assuring state financial income and for avoiding excess dispersion of financial resources. It is advantageous for correct handling of the interests of the state, enterprises and workers and for guaranteeing that the state receives the larger part. It is advantageous for further enlargement of the autonomy of enterprises, for making enterprises vigorous and for giving them pressure and motive power. When the distribution relationships between the state and enterprises are being handled, contradictions such as disputes over bases and disputes over proportions and readjustment of quotas can be avoided. This is advantageous in bringing the lever effect of tax revenues fully into play and it is advantageous for gradually breaking up sector or regional systems of ownership and for decreasing unnecessary administrative intervention so that enterprises can gradually break away from the restrictions of barriers. This is advantageous for improving and perfecting central and regional decentralized financial management systems and in making a transition to a financial system

in which categories of taxes are discriminated and in which tax revenues are shared so that both the central government and regional governments will have stable sources of income.

Question: What work has our district done in the area of substituting tax payment for profit delivery? What sort of progress is being made?

Answer: After the national working conference on substitution of tax payment for profit delivery was concluded on 1 April, our district went forward in step with the nation as a whole on the basis of the integrated method planned by the state. In mid-April, under the concerned eyes of district party and government leadership comrades, a districtwide working conference was held on substitution of tax payment for profit delivery and a districtwide leadership group for substitution of tax payment for profit delivery and a substitution of tax payment for profit delivery office were established. Each city and county also established corresponding leadership groups of had specialized personnel take responsibility for substitution of tax payment for profit-delivery work. On the basis of the methods and provisions of the state regarding substitution of tax payment for profit delivery, the responsible departments of enterprises at the city, county and district levels conducted individual surveys of the enterprises under their jurisdiction. At present, the work of examining and approving substitution of tax payment for profit delivery in state-managed enterprises is fully under way. Industry and communications and commercial enterprises under district jurisdiction and city and county industry and communications enterprises are striving to complete examination and approval by the end of May. Examination and approval for city and county commercial retail enterprises can be postponed appropriately and a method can be taken of concomitant differentiation, examination and approval and verification.

Question: Which enterprises in our district will implement substitution of tax payment for profit delivery?

Answer: Except for military industry, post and telecommunications, food, foreign trade, agriculture and animal husbandry and labor reform enterprises, all of the other regional state-managed enterprises in our district that are profitmaking enterprises will implement the substitution of tax payment for profit delivery regardless of what mode of economic responsibility system was originally adopted. Individual enterprises that truly find it necessary to maintain their original methods or necessary to postpone substitution of tax payment for profit delivery until next year must report to the People's Government of the Autonomous District for approval.

Question: Setting out for actual conditions, are there any key supplementary provisions in substitution of tax payment for profit-delivery work in our district?

Answer: In regard to standards for differentiating large, medium and small enterprises, industrial enterprises are being differentiated on the basis of the unified standards stipulated by the state. For commercial retail enterprises, the natural shop is taken as the unit. Independent accounting units with both less than 30 workers and staff and less than 50,000 yuan in annual

profit are considered to be small enterprises. This differentiation is basically an expression of the spirit of handling matters with leniency and is also in conformance with actual conditions in our district. Substitution of tax payment for profit delivery on this occasion is a restructuring "at one's own expense" and without exception there will be no further readjustment of the payment base. The budget level to which the income of an enterprises belongs can be determined at that level of government. After the eight grades of above-quota progressive taxes have been levied on small state-managed enterprises, whether or not contract fees should be levied or whether a greater proportion should be collected should be decided on the basis of the concrete circumstances of the enterprise. For example, some small enterprises have very heavy tasks of technological reform and production expansion, in which case tax levies can be reduced or eliminated. Higher taxes can be levied against others if they have no uses [for funds] for production and management in addition to regular bonuses for staff and workers. All small enterprises, regardless of whether or not contract fees are levied against them, must without exception take responsibility for their own profits and losses as the state will not allocate further funds.

Now let me turn to the question of the level of retained profit for enterprises. The overall principle in implementation of substitution of tax payment for profit delivery for state-managed enterprises is to steer a middle course between strictness and leniency. As far as our district is concerned, state finance can be somewhat lenient in regard to small state-managed enterprises, while the majority of the large and medium enterprises can hold to the actual rational profit-retention level of 1982. Readjustments must be made in the cases of individual enterprises with excessively high or excessively low retained profits.

Now let us consider the questions of the principles of use and distribution of retained profits by enterprises. In principle, they should be distributed and used in accordance with the five funds stipulated by the state. In cases among a small number of enterprises in which the level of retained profits is too low and in which there is difficulty in assuring funds for bonuses for the staff and workers, the proportion of funds to be allocated to worker and staff bonuses can be relaxed on agreement with finance departments at the same level.

Question: What is the relationship between implementing substitution of tax payments for profit delivery and various types of economic responsibility systems?

Answer: Implementation of substitution of tax payment for profit delivery by state-managed enterprises does not constitute replacement or cancellation of the various types of economic responsibility systems. Quite to the contrary, in order to guarantee that the state will acquire greater revenue, that enterprises will retain greater profits and that individuals will earn more, it is necessary to strengthen and to perfect economic responsibility systems, to raise economic results more effectively and to provide reliable sources of financial income.

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## FINANCE AND BANKING

### BRIEFS

**HUBEI FINANCE, TAX CONFERENCE--**The Hubei Provincial conference of the directors of finance bureaus and tax bureaus concluded this afternoon. The conference laid stress on discussing and studying the issues of how to concentrate funds on key projects. Vice Governor Tian Ying and Provincial Finance Department Director (He Fuling) spoke at the conference, urging the province to step up straightening out enterprises, to raise economic results, to do well in substituting taxes for delivery of profits, and to strengthen financial management. After this conference, the province will conduct a large-scale inspection of the situation in implementing the policy on tax collection and in financial management in enterprises. [Summary] [Wuhan Hubei Provincial Service in Mandarin 1100 GMT 29 Aug 83 HK]

**SHANDONG WORKING FUNDS CIRCULAR--**The Shandong Provincial People's Government recently issued a circular calling on the people's governments at all levels to attend to the work of placing state enterprises' working funds under the unified management of the people's banks. The circular states: Since 1 July 1983, the working funds of state enterprises have been placed under the unified management and supply of the people's banks. The financial departments will not allocate further working funds to the localities. The working funds which had been allocated by the financial departments in the first half of 1983 must be rapidly delivered to enterprises. Any retention and appropriations are not permitted. The circular called on enterprises at all levels to sort out, check, and decide on the sources of funds in line with the State Council's stipulations prior to the end of 1983. [Excerpt] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 1 Sep 83 SK]

**GUANGZHOU ENTERPRISES SUBMIT TAXES--**State-run factories and enterprises in Guangzhou City in Guangdong Province have implemented the system of substituting taxes for delivery of profits. Nine industrial bureaus under the city economic committee have drafted specific programs for implementing the system. Many enterprises are using the new method of financial management in accordance with requirements of substituting taxes for delivery of profits. [Summary] [HK131350 Guangzhou Guangdong Provincial Service in Mandarin 2300 GMT 6 Sep 83 HK]

**JILIN URBAN SAVINGS DEPOSITS--**Jilin Province prefulfilled its annual urban savings deposits plan by 4 months in 1983. By the end of August, the province's total urban savings deposits increased 273 million yuan over the end of 1982, 1 percent above the annual plan. [Summary] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 7 Sep 83 SK]

CSO: 4006/011

## INDUSTRY

### BRIEFS

SPECIAL GOODS FOR MINORITIES--Yinchuan, 11 Sep (XINHUA)--The 11th national meeting on production and marketing of special goods for minority nationalities concluded in Yinchuan on 11 September. According to the meeting, there are more than 1,000 factories in the country producing more than 20 categories, over 3,000 varieties and colors of special goods for minority nationalities to meet their basic needs. Since the convening of the 3rd Plenary Session of the 11th CPC Central Committee, the party and government have adopted a series of measures to promote the production of special goods for minority nationalities, thereby stimulating the continuous growth of production. [Excerpt] [OW130817 Beijing XINHUA Domestic Service in Chinese 1418 GMT 11 Sep 83]

CSO: 4006/011

## CONSTRUCTION

### BRIEFS

**TIANJIN HARBOR CONSTRUCTION**--The reconstruction of the salt loading dock of the Tianjin Harbor, one of the state key construction projects, and the installation of loading equipment have been completed. The trial operation of the 15 conveyor belts among the equipment, which was held on 24 August, was proved perfect. The dock will soon be put into operation, which is expected to increase its salt handling capacity from 1.8 million tons in the past to 3.3 million tons in the future. [Summary] [Tianjin TIANJIN RIBAO in Chinese 26 Aug 83 p 1 SK]

**SICHUAN CAPITAL CONSTRUCTION**--Local governments at all levels in the province have earnestly carried out important strategic decisions made by the central leadership on concentrating financial and material resources to guarantee the state's priority projects and have adopted resolute measures to diminish the scale of capital construction. Since July, all localities have inspected all projects which had been started or not yet started, according to relevant stipulations of the central leadership and the provincial government, thus initially calling a halt to the trend of continuous expansion of the scale of investment. According to reports, by the end of August, all cities, prefectures, autonomous prefectures, and counties in the province had decided to take measures to halt, slow down, and change to other lines the construction of 1,065 projects and to cut down investment funds by some 159 million yuan, accounting for 29.6 percent of the total investment quota assigned by the provincial authorities to all localities. [Summary] [Chengdu Sichuan Provincial Service in Mandarin 0030 GMT 21 Sep 83 HK]

**FUJIAN CEMENT PLANT**--The State Council has approved the construction of a big cement plant in Fujian Province. The project, known as the Sunchang cement plant project, will have an annual capacity of 620,000 metric tons. Thirty percent of the output will be packed in bags, while the rest will be supplied to users in bulk. Investment in the construction of this project will be made jointly by the central and local authorities with the State Bureau of Building Materials providing 60 percent of the investment and Fujian Province providing the rest. A plan is also underway for the building of a limestone quarry on the Yanggushan Mountain. The quarry, after completion, will supply 1.2 million metric tons of limestone, of which over 70 percent will be provided to the Shunchang Cement Plant while the rest will go to others, including the Nanping cement plant. [Text] [OW041241 Fuzhou FUJIAN RIBAO in Chinese 23 Sep 83 p 1]

CSO: 4006/020

## DOMESTIC TRADE

### DEVELOPMENT OF CATERING, SERVICE TRADE

Beijing GUANGMING RIBAO in Chinese 12 Jun 83 p 4

[Article by Yang Dongqi (2799 2639 6386) and Su Xuesheng (5685 1331 3932):  
"Some Problems in Developing Catering and Service Enterprises"]

[Text] As the policy of readjustment of the national economy has been implemented, readjustment of the economic structure of life services has gradually been carried out in various regions and there has been a comparatively great recovery and development of catering and service enterprises in urban and rural areas. On the basis of statistics of the concerned departments, there was an increase in urban and rural catering and service network outlets from 277,000 in 1978 to 1,225,000 in 1982, while the number of personnel employed in these enterprises increased from 1,604,000 in 1978 to 4,212,000 in 1982. The percentage of the total number of commercial retail enterprises in the society accounted for by these businesses increased from 4.3 percent in 1978 to 4.82 percent. However, for a long time people did not have an adequate understanding of the function of catering and service enterprises in the national economy, and, because of the mistaken influences of the "leftists" in the past, management of state-managed catering and service enterprises was looked down upon, with collective and individual businesses being particularly disregarded. As a result, collective and individual catering and service enterprises did not undergo the development that they should have, the economic structure of the catering and service industries as a whole has become highly irrational and the backward state of urban and rural catering and service enterprises has not to the present day undergone any basic change. For this reason, bringing about further increases in knowledge about developing catering and service industries is a major problem to the solution of which we must devote our attention in the present restructuring.

The nation's catering and service enterprises include more than 100 natural trades such as food services, repair services, hotels, barbershops, laundry and dyeing services, photography, bathhouses and tourist services. These industries can also be called service industries. Catering and service industries function as specialized trades in society. They are an inevitable outcome of the development of a society to a certain stage and are determined by their special functions. Catering and service enterprises are different from such production sectors as industry and agriculture. Their principal function is to provide services to industrial and agricultural production and for the

standard of living of the people. Speaking in terms of the catering trade (restaurants, bars, snack bars, mobile food and drink vendors), it must cook and process staple and nonstaple food products into various types of food products and provide these products to their customers, thus providing direct food services to their customers. Therefore, people say that it has the three functions of processing, selling and service. Because it has these three types of functions, it is not the same as a food plant that specializes in production and it is also different from a food store that engages in selling. Service businesses (hotels, photography shops, barbershops, laundries and dyeing shops and bathhouses) do not manufacture or process nor do they provide goods. They do have the function of processing. For example, photography shops take photographs and laundries and dyeing businesses wash and dye various types of clothes. These are their own products or products after value has been added that they provide to their customers. However, they are not like ordinary products. They provide certain types of services that people require in their lives by means of service work making use of certain equipment or places. The catering and services enterprises are also different from pure commercial enterprises. Although they both directly serve consumers, pure commercial retail enterprises serve the consumers primarily by supplying goods, whereas catering and service enterprises directly serve the consumers primarily by means of required raw materials, tools, technology, equipment, places and labor.

Under the conditions of socialism, catering and service enterprises are components of the overall national economy. They involve productive labor and nonproductive service labor. However, this type of service labor is also an essential factor in social reproduction. It transforms the subsidiary work of large numbers of people in society into specialized work by a small number of people and into special trades in society. Under the conditions of socialism, we will need more and more catering and service enterprises as projects for building modernization expand and as the standard of living of the people rises to produce services for industry and agriculture, to serve the lives of the people and to serve the expansion of tourist operations. This is an objective requirement for the cooperative development of the overall national economy. For this reason, derogatory and rejecting viewpoints and practices to the effect that this type of service enterprise "is not a sector of material production and does not create value" and that it should not be included in the industrial order are clearly unsuitable. The attitude of considering persons engaged in catering and service trades as a "lower class of persons" is also extremely incorrect.

Catering and service trades are labor-intensive trades. They use small amounts of money; they do not require large amounts of raw materials and consume limited amounts of energy. They rely primarily on labor services and the income from them falls into the category of redistribution of national income. The development of catering and service trades plays a very important role in promoting economic prosperity, invigorating markets, enriching the people's lives, absorbing the purchasing power of the society, adapting to expansion of the tourist industry and accelerating building of socialist modernization.

First, through service work, housework can be progressively socialized so that worktime is saved for the large body of the masses and so that they are released

from worry about difficulties at home in their lives. Thus, it effectively supports industrial and agricultural production and other construction projects.

Second, it provides food, lodging and other excellent services for workers who are engaged in the distribution of goods and for the great body of peasants during their travels or when they are taking part in market trade. This creates the essential conditions for expanding and invigorating the exchange of material goods between urban and rural areas and between regions and provides a strong impetus for expansion of exchange of commercial goods and circulation of commercial goods.

Third, through service work, the withdrawal of currency from circulation can be increased. This is advantageous for market stability. A relatively large proportion of the currency that is absorbed by catering and service trades belongs to the category of nonproduct currency withdrawal. Thus, it can satisfy the demands of the people for consumption and can also make up for insufficiency in the supply of goods.

Fourth, developing the catering and service trade can serve to accommodate a large volume of labor force. Each year, there is a large group of intellectual youths in our country who are waiting to be employed and there is also a problem of allocation of the excess labor force in the rural villages. Developing the catering and service trades is an important way of allocating employment. If we can solve this problem satisfactorily, we will not only be able to increase our forces for building socialism but this will also be beneficial to stabilizing and uniting society.

In expanding the catering and service trades, we should emphasize expanding the collective economy and the individual economy. Our nation has a vast territory and a huge population. There are many and varied consumption requirements. If we rely solely on the state-managed economy and we do not rely on the masses to organize the collective and individual economy, we will not be able to fully assume the arduous task of satisfying the production and life demands of the urban and rural people. At the same time, the catering and service trades depend primarily on manual labor. There are various varieties and items and the production and life requirements of the masses of people are complex. There are some activities that are comparatively occasional and for which there are very strong time and regional characteristics for the services. On the basis of these characteristics, they are suited to a small scale and suitably dispersed economy. For this reason, at the same time that we do a good job of running the state-managed catering and service businesses, we must also stress developing collective and individual catering and service businesses in order to bring about a rational disposition of various economic modes as well as a complete array of categories and cooperative development. This is an important task at present in restructuring the catering and services trades system.

If we are to do a good job with the catering and service trades, we must at present deal with the following three problems in addition to those indicated above.

First, we must readjust the economic structure of the catering and service trades. On a foundation of energetic development of collective and of appropriate development of individual catering and service businesses and of planned restructuring of the management systems of state-managed catering and service businesses, we must reduce the ratio of state-managed businesses and expand the ratios of collective and individual businesses in order to bring about a gradual readjustment in the proportion of urban state-managed catering and service business to the total number of businesses in the society from the present 60 percent to about 30 percent. In the rural areas, catering and service businesses will basically be managed by collectives and individuals. Through readjustment and expansion, we will be able to solve the long-standing problems in many regions of "difficulty in finding a place to eat," "difficulty in finding a place to stay," "difficulty in getting a haircut" and "difficulty in getting things repaired." This will require overall planning, adapting working methods to local conditions and adapting working conditions to the specific trades in order to effect concrete organization and implementation.

Next, we must be vigorous in doing a good job of building network outlets. In conformity with the principles of "economic applicability, rational distribution, developing complete trades and making things convenient for the masses," we should place our emphasis on regions in which there are inadequate network outlets. If something is lacking, we should make up for it, developing management characteristics, doing an active job of management and gradually expanding the sphere of services. We must strengthen market forecasts, analyze the characteristics of demand, correct ideas about management, fully utilize the conditions of abundant sources of goods, tap latent capacity, actively restore and introduce local vegetable shops and characteristics service project required by the masses in this region and invigorate the markets in order to enrich the people's lives. On the basis of doing conscientious research on the structure of consumption, the level of consumption and changes in the modes of consumption, we must readjust the strata and types of management of enterprises. We must strive to see that each shop has its own varieties and service items at which it is expert and that it has a chance to display its superiority. We must also strive to develop new fields of service. In transportation, we need roads, bus stations and docks, and, in the rural areas, we need flourishing market towns. We also need to add to the number of refreshment shops in order to make things more convenient for passing travelers to stop for a while and rest and to satisfy the demand.

Further, we must comprehensively promote a management responsibility system. In the face of present conditions, we should stress implementing internal management responsibility systems among enterprises and do a good job of basic work. All quota, business accounting, job responsibility, quality control and checking systems within an enterprise that are not sound must be made sound and measures must be implemented at each layer down to the group and the individual. In some cases tasks relating to production volume, quality, variety, consumption and earnings could be undertaken by retail departments and groups. When quotas are exceeded, bonuses can be given, and, when there is a loss, punishment can be given. At the same time, we must actively promote uniting of management responsibility systems with reorganization of enterprises, doing a good job of restructuring leadership groups, reorganizing work discipline,

improving the organization of work, establishing and perfecting various rules and regulations and strengthening democratic control.

In short, we must give serious attention to developing our catering and service trades. We must put this on our agenda, and, starting out from actual conditions, we must do research on and formulate plans for development and gradually implement them so that we can bring about changes in the present state of the catering and service trades and in their state of meeting the needs of the masses as quickly as possible in order to satisfy the varied demands for them in the lives of the masses. In this way, we can promote early realization of building of the four modernizations in our nation.

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CSO: 4006/619

## DOMESTIC TRADE

### BRIEFS

**SHANDONG SUPPLY-MARKETING PROGRESS**--Following the improvement of supply and marketing systems, supply and marketing cooperatives across the province made great progress in transaction in the January-July period this year. The gross value of farmland sideline products procured by them scored a 20.7 percent increase over the figure of the corresponding 1982 period. The gross value of their sold commodities scored a 10.5 percent increase over the figure of the corresponding 1982 period and their profit accumulation scored a 19.8 percent increase. [Excerpts] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 28 Aug 83 SK]

**GANSU NATIONAL CONSUMERS FORUM**--The third national forum of consumers, which is being jointly held by the State Economic Commission and the China Quality Control Society, opened in Lanzhou on the morning of 1 September. Attending are responsible comrades of all provinces, municipalities, and autonomous regions; relevant ministries, commissions, and bureaus of the State Council; some advanced enterprises and units; and representatives of production and business units and service trade, totaling some 140 people. This forum will exchange experiences in improving product quality and will discuss the rules and regulations for protecting consumers' interests and the work and tasks of the National Consumers' Commission, which was recently established, in order to improve the quality of products, service, and construction. (Wang Wenke), vice president of the China Quality Control Society and concurrently chairman of the National Consumers' Commission; Jia Zhijie, provincial CPC committee deputy secretary; and (Wang Jingtang), Lanzhou City CPC Committee secretary, spoke at the forum yesterday. [Summary] [HK030338 Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 2 Sep 83 HK]

**HAINAN COMMERCE**--Having implemented the business contract responsibility system, commercial departments in Hainan district have achieved outstanding economic results. The amount of purchase and sales in the first half of this year was 49.4 percent and 14.9 percent, respectively, more than in the same period last year. The profits in this period was some 1,300 yuan [as heard], an increase of 4.37 million yuan over the corresponding period last year. Commercial departments in Qionghai County made a profit of 976,000 yuan in the first half of this year, which was 133,000 yuan more than in the same period last year. [Summary] [Haikou Hainan Island Service in Mandarin 0330 GMT 7 Sep 83 HK]

CSO: 4006/011

## FOREIGN TRADE

### DALIAN MAYOR OUTLINES EXPORT PRODUCTION PLAN

OW101150 Beijing XINHUA in English 1124 GMT 10 Sep 83

[Text] Dalian, September 10 (XINHUA)--Dalian, an industrial and port city in Liaoning Province, northeast China, is set to boost its export production in the coming years, according to Mayor Wei Fuhai.

He said Wednesday the city will have increased the number of export-oriented factories from the present eight to 30 by the end of 1985 and the number of agricultural and native-produce export production centers from the present ten to 20.

The value of goods purchased for export by the city in 1982 came to 910 million yuan. The figure is expected to rise to 1.3 billion yuan by the year 1985.

In addition, the city will expand facilities to process and assembly foreign materials for export.

The mayor said that more than 100 foreign firms will attend the international meeting to discuss economic and technical cooperation scheduled for September 15 in Dalian. The city will offer more than 200 projects for cooperation with foreign firms.

The city plans to introduce 150 technical projects from abroad during the coming three years to transform 140 old factories producing machinery, electronics, chemicals, plastics, textiles and foodstuffs.

Dalian is China's second largest port with a cargo handling capacity of 34 million tons annually. The city has a complete range of industries with machine-building, petrochemicals, and light industry and textiles particularly well developed.

Between 1979 and 1982, the city imported 5,900 pieces of equipment using foreign capital obtained through compensation trade, co-production and processing and assembling foreign materials. The equipment was used to retool 80 medium-sized and small factories.

CSO: 4020/001

## FOREIGN TRADE

### BRIEFS

TIANJIN FOREIGN TRADE INSTITUTE--The Tianjin Foreign Trade Institute was formally established on 13 September. It is the first institute in Tianjin to specially train competent foreign trade workers. Deputy Mayor Li Lanqing and other leaders attended and spoke at the opening ceremony. This institute will enroll students from Tianjin, the North China and the Northwest China. At present, two specialities--foreign trade economy and foreign trade english--are offered. The length of schooling is fixed at 4 years. [Summary] [SK160009 Tianjin City Service in Mandarin 0030 GMT 14 Sep 83 SK]

CSO: 4006/011

## TRANSPORTATION

### BRIEFS

**NEW LIAONING ROAD**—A new gravel road from Dandong to Kuandian County's Taipingwan powerstation and a bridge on this road—the (Snadaowan) Bridge spanning the Ai He—opened to traffic this morning. The road is 76 li long. The bridge is 503.9 meters long. [Summary] [Shenyang Liaoning Provincial Service in Mandarin 1100 GMT 28 Sep 83 SK]

CSO: 4006/020

## GENERAL

### PRICE MANAGEMENT IN SPECIAL ECONOMIC ZONES DISCUSSED

Guangzhou GANGAO JINGJI in Chinese No 2, Apr 83 pp 33-34

[Article by Chen Zhaobin /7115 5128 2430/: "Several Theoretical Questions Concerning Price Management in the Special Economic Zones"]

[Text] In probing the system of price management in the special economic zones, we must clarify the following few basic theoretical questions:

1. The system of price management should consider "the two directions we face."

The so-called "the two directions we face" means that the market of the special zones embodies the characteristic of facing the international market and the market in Hong Kong and Macau and at the same time facing the market inside the special zones. This is very different from the general markets at home. The former is determined by the nature and factors of the special zones themselves, and the latter does not have or does not constitute any problem in the special economic zones and abroad. Our country's Shenzhen and Zhuhai have livelihood zones that have a large residential population. The level of consumption and the habit of consumption are different from abroad. This has thus raised the issue of "the two directions we face." In accordance with the dual character of the market, we ask that the form of prices and the level of prices be distinguished from the others, and specifically stipulate a complete program for the reform of the system of price management.

We should conduct separate study on the two directions which we face. In facing the foreign market and the market in Hong Kong and Macau, we ask that the special zones give play to the role of market regulation extensively, provide various kinds of commodities and service in accordance with the level of consumption and the habit of consumption abroad and in Hong Kong and Macau, and, in accordance with the demand of the activities of procurement and sales on the international market, guarantee adequate flexibility and a high sense of competitiveness in prices. Thus, it is necessary to set up a competitive system of prices, and create the conditions for setting up and utilizing such a system of prices through an economic system of management, economic news and training of able personnel. As for facing the market inside the special zones, the special zones should adapt themselves to the level and habit of consumption of the local residents and the travellers from the hinterland, and set up a form of prices for relevant commodities and a corresponding system of management

with a different extent of control, and guarantee a stable level of prices. This is determined by the demand of the basic economic laws of socialism. To run the socialist special economic zones well, we absolutely must not neglect this point. When some comrades advocate the implementation of the principle of stabilizing prices by the special zones, they are actually aiming at this "direction."

In considering the system of price management in light of the characteristic of "the two directions we face," we certainly do not imply that we should set up two totally separate systems of prices and systems of management. We only mean that the government of the special zones should control certain commodities and charges that are of major relevance to the livelihood of the people of the special zones and that, in stabilizing prices, we must arrange properly for the residents cheap and convenient network outlets of commercial restaurants and service trades that are in line with the people's habit of consumption. We can narrow the scope of commodities with stable prices a bit, or we can appropriately regulate the prices in accordance with the rise in the income level of the residents, and gradually abolish the traditional modes of price management such as vouchers, quota and subsidies.

In short, clarifying the "two directions we face" should be an important foothold for stipulating the system of price management.

## II. The Basis of Formation of the Commodity Prices in the Portion of Market Regulation of the Special Zones

In the future, the special zones should give play extensively to their role in market regulation. Then, what prices should be set in accordance with market regulation? It is not enough to just say generally "free prices" or "prices that will link up with Hong Kong and Macau."

The special zones are the forward region where the domestic market meets the international market, and is an open region where foreign capital is absorbed in a concentrated manner. The industrial products of the enterprises of the special zones are primarily for export sales. The market of the special zones is linked up with the international market and the two are in mutual competition. Thus, we can see that market regulation for the special zones will not be a regulation of the laws of value which we generally find within the scope of a country, and the prices that are set will also not be based on "domestic values" or production prices, but is a regulation that should realize the laws of value on the international scale. The prices thus set will be on the basis of "international values," and, as Marx put it, on the basis of "the average unit of the world's labor." The products of the special zones must form their competitive prices on this basis, then plunge into the world market and attract the foreign purchasing power. We should not link the competitive prices only with the market in Hong Kong and Macau and the foreign market, but should, in the competition, also decide on prices that are beneficial to us. This thus asks for a high sense of flexibility. We should establish a modern economic information system as a guarantee and at the same time should

let the enterprises have the power of making policy decisions concerning prices. Whether or not the special zones will be a success in the future will be reflected in prices in whether or not we can effectively set up and utilize competitive prices.

We should also be able to see that, on the international market, the prices of the various commodities are not all naturally set according to "international values." Prices will also fluctuate in accordance with supply and demand. Furthermore, monopoly prices will also be set as a result of the control and intervention of the monopoly groups. This determines the fact that the special zones must adapt themselves to the complex situation and adopt various policy decisions in struggle. Besides the enterprises having the power to make policy decisions, some commodities should be put under centralized guidance and control in order that competitive prices that are most beneficial to ourselves will be fixed, and the condition of diverse encounters with foreign countries and competitive sales by reducing prices will be prevented. Thus, the stages in making policy decisions concerning competitive prices and the various methods of fixing prices and systems of management and all major topics that we need to study in depth. (The author of this article works at the Economic Research Institute of the School of Economics of the Jinan University)

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CSO: 4006/675-F

## GENERAL

### SHENZHEN COMMODITY PRICES REPORTED BASICALLY STABLE

Guangzhou GANGAO JINGJI in Chinese No 1, Feb 83 pp 58-59

[Article by Huang Zangiang [7806 6363 1730] of the Shenzhen Commodity Prices Bureau: "The Commodity Prices on the Market in the Shenzhen Special Economic Zone are Basically Stable"]

[Text] Since the trial running of the special zones, people have been talking about the commodity prices of the special zones. Some people said: "The situation of inflation in the Shenzhen Special Economic Zone is serious. Everything is specially expensive. Only stamps are of market quotation." Other people said: "In Shenzhen, only the agricultural products are expensive, while the industrial products are cheap." Which actually is the truth?

(1) The prices of the important commodities are stable and the index of daily consumption of the residents is somewhat lowered.

The prices of the important necessities of the people's livelihood and the major service charges are stable. These form the basis of stability of market prices. In respect to the supply of non-staple food, to a certain extent, as long as the prices of vegetables are stable, the entire market will be able to maintain stability. Since the beginning of 1982, in Shenzhen, the prices of the 12 commodities, including grain, edible oil, salt, sugar, pork, cotton cloth, matches, soap, kerosene and coal, and the three charges of rent, utilities, and post and telecommunications have "guaranteed quality, guaranteed quantity and guaranteed supply according to market quotation." The prices of 12 commodities, including manufactured bean products, fresh milk, manufactured milk products, pastes and soy sauce, aquatic products and staple vegetables, and the three charges in city transport, school tuition and incidental expenses, and cinema tickets have basically "remained generally unchanged or made only minor adjustments."

By the end of December 1982, compared to January of that year, among the 197 commodities (and charges) of the 38 categories, 12 categories have made adjustments upward in price, occupying 6 percent, while 8 categories have made adjustments downward, occupying 4 percent. The balance of upward and downward adjustment showed an upward adjustment of 0.5 percent. This was basically in accordance with the principle of "there is rise and there is fall, and there is overall equilibrium."

Calculating the daily consumption of the residents, which is around 70 percent of the people's living expenses stipulated by the state, the value for 1982 for the 45 daily consumption items under the 5 major categories of eating, clothing, daily necessities, heating and non-commodity expenses was 50.14 yuan, which was 2.6 percent lower than the preceding year. In other words, what could be bought with 100 yuan in the preceding year could be bought only with 97.40 yuan in 1982. From 1978 to 1981, the value of daily consumption was always on the rise, and it only became more stable and even began to come down by 1982. In particular was the eating expenses. In December 1982, it was 35 yuan, which was 11.7 percent lower than April of the same year, and was 4.6 percent lower than the corresponding period of the preceding year. This was primarily due to the increase of supply according to market quotation, which reduced the expenses with respect to the rural trade markets.

(II) Compared to the hinterland, the commodity prices of Shenzhen are not high.

Whether the commodity prices of Shenzhen are considered high is primarily relative to the prices of the hinterland. Let us compare the prices of the few major commodities (and service charges) of Shenzhen to those of the hinterland. Basically, the situation is as follows:

1. Eating expenses. The retail prices are basically stable. But the prices of a portion of non-staple foods, such as vegetables, pond fish, live geese and fresh lean pork are higher than those of the hinterland. The supply of vegetables in 1982 had improved considerably. The vegetables plots have been expanded from 5,000 mu in the preceding year to 13,000 mu. In 1982, the city vegetables company supplied 190,000 dan to the market, a 40 percent increase over the preceding year. The average retail price for every dan was 12.45 yuan, which was roughly 30 percent higher than that of Guangzhou. The subsidy for vegetables in 1982 was around 1.10 million yuan, which showed an 80 percent increase over that of the preceding year. Because the newly expanded acreage was not totally practicable, while the portion of acreage of the old plots had to be readjusted and moved as a result of urban planning, and in addition, as a result of seasonal influence, the amount of supply to the market was not balanced. In particular, the vegetables under market quotation could not satisfy the market demand during the slack season. As a result, the consumers had to supplement their needs by going to the rural trade fairs. Although the market prices were 26 percent lower than those of the preceding year, they were still 30-50 percent higher than the market quotation. This reflected the fact that the high commodity prices of the special zones are to a large extent due to the insufficient supply of vegetables under market quotation and the relatively high prices at the rural trade fairs, which increased the expenses of the consumers.

2. Daily necessities. The retail prices are basically stable. Having an abundant supply of goods, a satisfactory variety of goods and fine quality of goods, the prices generally are cheaper than those of the hinterland. In particular, the special zones are offering favorable prices for 13 categories of industrial items, including refrigerator, washing machine, television, radio and tape recorder, sewing machine and bicycles that draw in foreign exchange certificates. These prices on the average are 10 percent lower than those of Guangzhou.

3. Clothing, which includes clothes, shoes and socks. The retail prices are basically stable. Not only is there an abundant supply of goods, there are also goods of many different colors, designs and varieties. The prices generally are cheaper than those of the hinterland. This is why people are ready to bring clothing materials from Shenzhen back to the hinterland.

4. Heating. In accordance with the supply by quota and market quotation, the retail prices are stable. The monthly quota for beehive coal balls is 30 jin, and the retail price for every 100 jin is 2.15 yuan. Over 5,000 households have gas supply, and the monthly quota for each household is 1.5 containers. Because of the long line of transportation, the cost of a 15 kilo container is 11.2 yuan, while the supply price is only 5.5 yuan. The coal and gas for civilian consumption is listed as a policy deficit and receives financial subsidy.

5. Non-commodity service charges are basically stable. The fee criteria of a portion of the service items are about the same as those of the hinterland, while some service charges are somewhat higher than those of the hinterland. Rent and utility fees still maintain the originally stipulated prices. One square meter of a first class house is 0.12 yuan, second class house is 0.10 yuan and third class house is 0.08 yuan. Water for civilian use is 0.18 yuan per cubic meter and electricity for lighting is 0.20 yuan per KWH, with an additional 5 percent (which is 0.01 yuan) for street light maintenance. There are over 90 hotels and hostels with a total of over 7,000 beds. For the average hotel, it is 1 to 1.5 yuan for 1 bed and 2 to 3 yuan for 1 bed in a 3 to 4 person room. This is roughly the same as that of the hinterland. The rooms of the guesthouses are more expensive than the hinterland and less expensive than Hong Kong. School fees, incidental fees and medical fees are stipulated by the province. The prices of public transportation are: 0.10 yuan for 1 to 3 stops, 0.20 yuan for 4 to 6 stops and 0.30 yuan for the entire journey. They are a bit higher than the hinterland. The prices of the minibuses and medium-sized buses (small and medium sized public transportation) are 0.10 yuan higher per kilometer than Guangzhou, which are a little on the high side. The urban area has 8 companies engaged in this business. Due to factors in such aspects as system of organization and management, the phenomenon of charging more and asking for fees randomly sometimes would take place. Of the 68 enterprises in the eating trade, only 12 are state-run. Most of the raw materials come from the rural trade markets. Although the overall gross profit rate of the third class restaurants is fixed at roughly 30 percent, and although the various restaurants have economic meals that cost 0.50 yuan, 0.80 yuan and 1.00 yuan, still the customers note that the prices are too high. In particular, the foreign travellers' complaints are even more vehement.

(III) The industrial products are cheap but we must carry out specific analysis on why the agricultural sideline products are expensive.

The industrial products of Shenzhen are cheaper than those of the hinterland. This is an obvious fact and is acknowledged publicly by all. But we must carry out specific analysis on whether or not the agricultural sideline products of

Shenzhen are more expensive than those of the hinterland. Generally speaking, it is a fact that the agricultural sideline products of Shenzhen are a bit more expensive than those of the hinterland. But we cannot say that for all the products. There are some that are cheaper than those of the hinterland, or are about the same as those of the hinterland. The quota for the supply of commodities by voucher is not lower than that of the hinterland. The per capita actual level of the commodities under market quotation that are in open supply is not lower than that of the hinterland, and the retail prices are not higher than those of the hinterland either.

For instance:

Grain is supplied in accordance with the quota and market quotation. The retail price for third grade rice is 0.142 yuan for 1 jin, and standard grade is 0.17 yuan, the outstanding grade is 0.28 yuan. Even grain with negotiated price will implement the uniform price fixed by the state.

The monthly quota for edible oil will increase from 5 liang to 6 liang. Supply will increase during holidays. The retail price under market quotation is 0.93 yuan.

The monthly quota for sugar will increase from 5 liang to 7 liang, and the retail price under list price for refined sugar is 0.68 yuan.

The monthly quota for pork is 2.80 yuan. The retail price under quotation for fresh first grade pork is 1.22 yuan per jin. But the residents are complaining about the 50 percent frozen pork in their quota. They are unused to eating frozen meat, and reflect that there is little fresh and lean meat.

The aquatic products will be in open supply at prices under market quotation. The procurement of salt water fish in the entire year is some 300,000 dan, 200,000 dan of which are delivered to the province and 260,000 dan are supplied to the locality. The majority are medium grade fish. This included the actual supply of some 6 jin on the average per month for each person in Baoan County. The average retail price is 0.35 yuan per jin. All the people unanimously reflect that the supply is adequate and the prices are cheap. Furthermore, some 40,000 mu of pond fish have been run jointly using foreign capital, and the production situation is excellent.

Live chicken. The entire city has 32 collective chicken farms with a rearing capacity of some 2 million chickens, some 1.6 million of which are exported, which occupy 19 percent of the total volume of export throughout the country. The market supply and demand have relaxed. Each year, every person can obtain 2 chickens with a voucher as supply under market quotation. The retail price of the Hong Bu Luo first grade chicken is 1.87 yuan per jin. Production and sales by those who carry out production outside the plan are allowed. The floating price is fixed at 20 percent. The problem of eating chicken in Shenzhen has basically been resolved.

Fresh eggs. Every year, some 1.2 million jin are supplied. Every person on the average obtain roughly 1 jin every month. The retail price is 1.15 yuan per jin, and the negotiated price is between 1.80 to 2.00 yuan.

Looking at the above, we can see that the market supply for the primary and secondary food products that affect greatly the people's livelihood is quite good, and the retail prices are relatively stable. The quota for grain, edible oil, sugar and pork is higher than such places as Huizhou. They are supplied according to prices under market quotation and are cashed in according to quota. In terms of the entire province, the per capita actual volume of supply of salt water fish, live chicken and fresh eggs is relatively high, and the prices are relatively cheap. This is a fact that is obvious to all.

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## GENERAL

### TAXATION IN THE SPECIAL ECONOMIC ZONES DISCUSSED

Guangzhou GANGAO JINGJI in Chinese No 1, Feb 83 pp 46-48

/Article by Zhou Weiping /0719 4850 1627/: "Taxation in the Special Economic Zones"

/Text/ The issue of taxation in the special economic zones is an important topic in the theoretical study concerning the special zones. Articles 13 to 16 in "The Regulations for the Special Economic Zones in Guangdong Province" stipulated that: Import taxes are exempted or reduced for the import of necessary means of protection and article for daily use by the enterprises of the special zones. The income tax rate is 15 percent. When they meet with the terms of the regulations, the enterprises of the special zones will be given special favorable treatments regarding their due income tax. The travelling businessmen can remit according to the law their legal profits after taxation and the employees can remit their proper income after taxation. If the travelling businessmen reinvests his profits in the special zones for more than 5 years, he can apply for reduction of the income tax of this portion of profit. The above regulations have provided the basis and clarified the orientation for the work of taxation in the special zones.

Taxation in the special zones basically belong to the sphere of taxation on foreign nationals. The legislative principle of our country's taxation on foreign nationals is: Under the prerequisite of protecting the nation's rights and interests, implement "light tax burden, generous and favorable terms and simple procedures." The taxation in the special zones must also implement this principle. But because the special zones are regions that concentrate the use of foreign capital, in order to distinguish them from the broad hinterland, we must give prominence to the "special" quality of the special zones. In taxation, we should implement the policy of granting more favorable terms. "The Regulations for the Special Economic Zones in Guangdong Province" stipulated that income tax rate for the enterprises in the special zones is 15 percent. The income tax imposed on the joint ventures in the hinterland, plus the local taxes, come up to 33 percent. The income tax imposed on the foreign enterprises, which include the local income taxes, come up to 30 to 50 percent. This is one obvious characteristic.

To implement the policy of equal treatment without discrimination in taxation toward the various economic components is an important principle in the taxation in the special zones. Because of different historical factors, in the special

economic zone, toward foreign capital, overseas Chinese capital and capital from Hong Kong and Macau, regardless of the mode of investment, we must not copy the policy of utilization, restriction and transformation which we used before the completion of the socialist transformation in our country. The special zones should not implement the policy of granting favorable terms to the state-run and collective enterprises and increasing the tax burden of the joint ventures and the enterprises that operate exclusively with foreign capital. Certainly, they absolutely are not permitted to implement the policy of granting favorable terms to the joint ventures and the enterprises that operate solely with foreign capital and increasing the tax burden of the state-run and collective enterprises. On the question of income tax, regardless of the enterprise, we must implement equal treatment without discrimination and uniformly impose a 15 percent income tax. In so doing, we will allow the various types of enterprises to be on equal footing and enter into mutual competition, promote the improvement in the business management of the state-run and collective enterprises, and creating a favorable condition for developing the economy of the special zones and strengthening the appeal toward foreign capital. This is in line with the idea of carrying out the reform in the system of organization and implementing the "substitution of tax payment for profit delivery" within the realm of the entire country. As for the profit after taxation of the state-run enterprises, we can adopt administrative methods as well as make use of the various economic levers to channel them so as to make it convenient for us to handle properly the relationship in distribution between the special zones and the state-run enterprises. The enterprises that are "linked with the inland" must also pay their income tax and must not refuse to pay income tax by using the financial system of separate contracting at various levels as an excuse.

The special economic zones should set up an administrative system of management and an economic system of management that are independent of the existing system in our country. The system of taxation should not be an exception. The system of taxation for the special zones should also give prominence to the word "special." The viewpoint that taxation can only be under the state legislature and that the special zones cannot have their separate regulations is not an all round one. In light of the reality of our country's special economic zones, the system of taxation could be studied and formulated in the following aspects:

1. As regards the taxation on foreign nationals (including custom tax, enterprise income tax and individual income tax), take the tax laws published by the NPC as the basis, let the State Council make special preferential regulations regarding special zones and implement them after they are published. The preferential contents include: Exemption from custom tax for all imported commodities to the special zones with the exception of a few commodities such as cigarettes and wines. Exemption from export custom tax for all the industrial and agricultural products from the special zones to be exported for sale abroad, with the exception of those which the state has separate regulations for. Products from the special zones that are sold to the hinterland must pay overdue import tax. There should be corresponding preferential regulations for the enterprise income tax and the individual income tax.

II. Reform the industrial and commercial taxes. At present, in the special zones, the state-run and collective enterprises are paying taxes in accordance with the draft of the regulations for industrial and commercial taxes, while the joint ventures and enterprises that operate solely with foreign capital are paying taxes in accordance with the unified tax regulations for industry and commerce. In implementing two sets of taxation, one toward those at home and one toward those abroad, the tax burdens are unequal. Thus it is difficult to clarify between favorable terms and discrimination. The method of solution can only be the reform of the system of industrial and commercial taxes itself. The theoretical circle and the departments that are engaged in actual work have long proposed many programs for the reform of the system of industrial and commercial taxes. It is entirely possible for the special economic zones to take the first step in trial implementing the reform of the industrial and commercial taxes. In accordance with the actual situation in the special economic zones and taking the system of taxation in Hong Kong, we can change the existing industrial and commercial taxes and unified industrial and commercial taxes to merchandise tax and business tax. Merchandise tax will be imposed only on a few products. Different tax rates will be set for different products. These few products which will be sold in the special zones or to the hinterland will be taxed according to their rates, and tax will be exempted from the products that are exported. The targets of business tax are commerce, service trade, construction business, communications and transport, public works and cultural and recreational trades. In accordance with the principle of individual treatment, different tax rates will be set for different trades, and taxes will be imposed according to rate depending on the volume of business done.

III. Rectify and impose local taxes. The party Central Committee stipulated that the reduction, imposition and termination of the various tax revenues for the localities can be determined by the localities themselves. Thus, in the rectification and imposition of local taxes, the province where the special zones are located in will have more autonomy. In this respect, we can consider the following:

1. Impose stamp duty. This is the renewal of an old tax item. In imposing stamp duty, we can carry out inspection of the written proof of the various economic behaviors and safeguard its legal effectiveness. Stamp duty is a popular form of taxation in the various countries, and are easily accepted by foreign investors. The tax rate can be divided into ad valorem and quota.

2. Impose special consumption taxes. This is also a renewal of an old tax item. But we can consider narrowing appropriately the targets of taxation, and impose taxes mainly on the high standard consumption items. We can consider limiting our specific targets to high standard feasts, high class hotel accommodations and high class cultural and recreational activities.

3. Rectify the real estate tax. Terminate the real estate tax and change that to collecting fees for land use. The scope of imposing real estate tax should be the same as that for charging fee for land use, and expand it to imposing

tax on all the house properties in the special zones. Different tax rates should be set for different house properties. We must treat differently the house properties for government organs, troops, organizations and schools, the house properties for enterprises and the houses used in production and the residential houses. The criteria for calculating house property tax is the standard house value. The special zones should have a special organ responsible for assessing and regulating the standard house values.

4. Rectify the license tax for use of vehicles and ships. We must appropriately increase the quota tax rate of the license tax for use of vehicles and ships (in particular motor vehicles) so that it is higher than that of the hinterland and lower than that in Hong Kong and Macau. Hong Kong imposes a registration tax on motor vehicles, which is 15 to 40 percent of the C.I.F. of the motor vehicle. We can take this as our reference.

5. Rectify the industrial and commercial registration fee. At home, the industrial and commercial registration fee has all along been included in the scope of standard fee. This is correct under the condition when the socialist enterprise has absolute superiority. The future of the special economic zones is: The state capitalist enterprises will become the major economic component. Thus, we can use the existing regulations in Hong Kong as our reference, and stipulate that each enterprise, in the process of registration, should not only pay the fixed registration fee but also pay a definite proportionate registration fee according to the registered amount of fund, and then include it in the scope of local tax. The standard taxes for public security, legislature, health and sanitation and construction will continue to be handled as standard taxes.

The probe into the question of tax revenues for the special economic zones, till the present, is still a relatively weak link. This article has brought forth some immature ideas. Hopefully, with these few commonplace remarks as introduction, others may come up with valuable opinions.

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## CENTRAL

### PROFESSOR TAO DAYONG DISCUSSES SHENZHEN SPECIAL ECONOMIC ZONE

Guangzhou GANGAO JINGJI in Chinese No 3, Jun 83 pp 6-10

[Article by reporter of this journal: "Professor Tao Dayong [7118 1129 6978] Discusses the Shenzhen Special Economic Zone"]

[Text] In the latter part of April, professor Tao Dayong, the advisor to this journal, went to the Shenzhen Special Economic Zone for a 4-day visit. The reporter of this journal went along. Based on his impression of this visit, professor Tao discussed several issues concerning the Shenzhen Special Economic Zone. The following is a brief recollection of the discussion:

#### (1) The issue of the Nature of the Shenzhen Special Economic Zone.

As regards the nature of the Shenzhen Special Economic Zone, opinions differ in the circle of economics. Some feel that it is a capitalist special zone under the leadership of the CPC. Others feel that it is a socialist special zone. Still others feel that it embodies the nature of state capitalism. And there are still other opinions. After this on-the-spot inspection, we feel that the above versions are not in line with the reality. In view of the overall situation in the Shenzhen Special Economic Zone at present, we should say that it is a special zone in which many economic forms, with state capitalism being the primary form, coexist.

To look at the Shenzhen special zone as a capitalist district is not in accordance with its reality. This is because, in Shenzhen, there are not only many socialist state-run enterprises, also, the enterprises using foreign capital cannot set up factories freely, carry out production arbitrarily and carry out exchange randomly. In terms of the laws of value or the laws of surplus values, they do not play an entirely spontaneous role as they would under the capitalist conditions and must place themselves under our management. They must abide by the laws, decrees and regulations of our country, must pay taxes to the tax bureaus of our country, place themselves under the foreign exchange management and monetary management of our country, and establish economic relations with our state-run economy in many aspects. They must purchase the water and power and other commodities supplied by our state-run enterprises, and must also carry out production and sales in accordance with the conditions that were talked over beforehand. In short, their scope of business and activity, to a certain extent, is restricted by our country.

Thus, the Shenzhen Special Economic Zone does not embody the original significance of a pure capitalist economy. It is also not in line with reality to say that the nature of this special zone is that of a capitalist district under the leadership of the CPC. It is not logical either. The CPC is the vanguard of the Chinese working class and the leading core of the socialist cause in China. How can the Shenzhen Special Economic Zone, which is under the party leadership, be a capitalist zone?

But there are some people who look at the nature of the Shenzhen special zone as one that is entirely socialist. This is to go from one extreme to the other, and is also really a bit subjective.

First of all, Shenzhen is only a special economic zone and not a special administrative district. The system implemented in a special administrative district is stipulated by the NPC according to the law in light of the specific situation there. But this problem does not exist in the special economic zone. Like other districts throughout the country, Shenzhen is under the unified rule of the CPR government. In administration, there is nothing special, and its unique social character does not exist. As a special economic zone, as the expression suggests, Shenzhen is primarily different from other districts throughout the country economically. Here, a series of special policies and flexible measures are implemented, which make it different from other districts economically. If we feel that the nature of the Shenzhen special zone is one that is entirely socialist, then it should be exactly the same as other districts throughout the country. Then there is no need to call it a "special zone".

Some people say that, in many spheres in the Shenzhen special zone, there are all kinds of socialist economic activities. There are laborers of our country who are engaged in socialist construction, there are a large amount of capital that are invested by our socialist country, and the socialist economy still occupies the leading position in the entire district, to the extent that the market of the special zone is controlled by the socialist economy. With regard to these conditions, we must conduct specific analysis and must not draw a sweeping conclusion. Otherwise, we will very easily blur the boundaries between state capitalism and the socialist economy. Obviously, we cannot say that the activities of the enterprises of our country that are engaged in joint ventures in Shenzhen are in line with the demand of the basic economic laws of socialism. We should be able to see that the laws of surplus value still play a role to a certain extent and that the laborers are to some extent still exploited by the foreign investors. Although our party has personnel who are shouldering duties in the board of directors or the managerial office, we still cannot say that these organizations are entirely of a socialist nature. Of course, the joint ventures are somewhat similar to the joint public-private enterprises in the early period after the Liberation, but they are not exactly the same. The public-private industry and commerce in those years were a transitional form in the transformation from private capitalism to socialism. The period of transition was not long. The joint ventures at present do not belong to a transitional form in this transformation, and the term period is

relatively long. The nature of the public-private enterprise in those days was not of a socialist character but of state capitalism. Therefore, how can we describe the joint ventures in Shenzhen as those embodying a socialist character?

Furthermore, we must not confuse the nature of the Shenzhen special zone itself with its role in the socialist construction.

The nature of matter itself is not the same as the role it plays. For instance, the nature of our country's new democratic revolution is a new style bourgeois democratic revolution and is not a proletarian socialist revolution. But it has become a part of the proletarian world revolution. Similarly, though the special economic zone embodies a significant meaning and role in our country's socialist construction, and though it has become a component part of the sum total of the entire socialist national economy of our country, yet it does not realize a socialist relationship in production. Thus we cannot affirm that its nature is entirely socialist because it is a part of the sum total of the socialist national economy. That is to say, we cannot describe the present individual economy as having a socialist character. Even though the state protects the legal rights and interests of the individual economy of the urban and rural laborers, that is only a supplement of the socialist economy of the system of public ownership and is not socialism in itself.

Of course, many forms of economy coexist in the Shenzhen special zone. Such public works as water and electricity, communications and transport, post and telecommunications, real estate, finance and banking all belong to the socialist state-owned economy. Among industry, agriculture and commerce, there exist the socialist system of ownership by all people or the system of collective ownership, and there also exists the individual economy. In addition, there are joint ventures, China-foreign cooperation, sole investment by foreign businessmen, processing of imported materials and compensation trade, and so forth. With regard to the various undertakings such as industry, agriculture, commerce, transportation and real estate, in the early period after the zone was built and before overseas Chinese capital and foreign capital were drawn in in large amount, the socialist system of ownership by all people and the system of collective ownership occupied a relatively large proportion of the economy. However, in running the special zone, we need to draw in a large amount of foreign capital, or we do not need to build a district as a "special zone." With the development of the special economic zone, we will draw in more and more foreign capital, and this will form a larger and larger proportion. In view of the projects that were imported in the last few years, besides the processing of imported materials and compensation trade, the majority of them were joint ventures, but there were also sole investments by foreign businessmen. In his report at the 4th conference of the 5th NPC, comrade Zhao Ziyang once pointed out that the special zone "must boldly utilize foreign capital." Even though we will have right of ownership of the enterprise when the terms of the contract are fulfilled, and the individual enterprises will become socialist state-run enterprises, yet, in terms of the entire Shenzhen special zone, more new foreign capital will continue to be brought in. Thus, as a special economic zone, the time limit is rather long. The fixed number of years for the use of land by the enterprises in the special zone is, 50 years

for the long ones (such as land used in education, science and technology, and medical and health causes), 30 years for the average ones (such as land used in industry and tourism) and 20 years for the short ones (such as land used in commerce). Thus, in view of the entire Shenzhen Special Economic Zone, within a considerably long period of time, the large amount of investment by foreign businessmen will occupy a relatively large proportion in the entire economy. We should say that, in terms of the nature of the Shenzhen Special Economic Zone, the special zone is actually one where many economic forms, with state capitalism being the key, coexist. It is not pure capitalism and it is not entirely socialism either. Our country is not a capitalist country but a socialist country. The state capitalism in our country is just as what Lenin once said: "It is a capitalism which we can control and stipulate the sphere of activities for. Such a state capitalism is linked up with the state, and the state is the workers, is the advanced portion of the workers, is the vanguard and is us." In accordance with this definition, there are many kinds of state capitalism. There is the land lease system of the Soviet Union in those years and the public-private enterprise in our country during the early stage after the Liberation. There are many other forms of investment by the Hong Kong businessmen, the overseas Chinese businessmen and foreign businessmen in the Shenzhen special zone. They are all forms of state capitalism which our socialist country can control and stipulate the sphere of activities for. This is because, all the enterprises which the foreign businessman set up in the Shenzhen special zone must act in accordance with the contracts, abide by our country's concerned policies and decrees and obey the unified leadership of the Shenzhen municipal people's government in such aspects as time limit of business, orientation of business, labor wages and distribution of profits. Even in terms of the distribution of profits, the foreign businessmen cannot occupy the entire portion of surplus value. That is to say, in the special economic zone, the exploitation of the capitalists toward the workers are already restricted by the socialist country. This certainly does not have a pure capitalist character, but embodies of nature of state capitalism.

(11) Does the Shenzhen Special Economic Zone Implement the Planned Economy or the Market Economy?

In view of the entire nation, the basic orientation for the reform of the economic system of organization should be: Under the prerequisite of preserving in the implementation of the socialist planned economy, give play to the subsidiary role of market regulation. In stipulating its plan, the state should also adequately consider and utilize the laws of value. This is what comrade Chen Yun meant by "the bird flying in the cage." But Shenzhen is a special economic zone. Compared to other districts throughout the country, it certainly has its uniqueness economically. Of course, it still does not mean that we should implement the market economy entirely. We can say that the Shenzhen Special Economic Zone is implementing primarily the market economy, or we can say that the market economy is playing the leading role, while the planned economy is still playing a role to some degree and within a certain sphere. This is determined by the nature of the state capitalist

economy as the key. When other districts throughout the country are implementing the principle of the leading role of the planned economy and the supplementary role of market regulation, this is determined by the nature of taking the socialist system of public ownership as the basis of our country's economic system.

Some comrades proceed from the point that the economy of the special zone is one of socialism to infer that what the special zone implements is necessarily a planned economy. This is inappropriate. Other people say that even if we do not impose state planning upon those economic activities which cannot and should not be subject to state planning, the implementation of the planned economy will not be hindered. If this is so, then can we not say that many countries in the world have already implemented a planned economy? Historical facts have told us that only on the basis of the system of public ownership of the means of production can we enable the national economy to develop in a planned and proportionate manner. This is a clear sign that distinguishes the socialist economy from capitalism and is an important aspect in the superiority of the socialist system. It is unjustifiable in terms of reality or logic to conclude that the economy of the special zone is one of planned economy by bypassing such forms of state capitalist economy as sole investments by foreign businessmen, joint ventures and China-foreign cooperations that are large in number and have formed a major component of the economy of the special zone.

Furthermore, the state capitalist economy of the Shenzhen Special Economic Zone is still not the same as the state capitalism of the early stage since the Liberation. In our country, state capitalism is a transitional form whereby the private capitalist economy is transformed into the socialist state-run economy. It traverses the course of development from an elementary form to an advanced form. After the implementation of the joint state-private ownership by whole trades, the production of the enterprise is directly included into the orbit of the state plan. The joint public-private enterprises in those years were basically not influenced by the international market. But in the Shenzhen Special Economic Zone, the products of the enterprises using foreign capital and overseas Chinese capital are primarily for export. They face the international market and organize their production and sales primarily according to the demands of the international market. Or, we can say that they are to a considerable extent subjected to the regulations of the international market. Even though it must also come under the laws of value inside the zone to regulate production and exchange, yet, in view of the actual situation of the foreign trade and economic activities of the entire special zone, it must change with the price changes on the world market. Thus, in reality, the Shenzhen Special Economic Zone is primarily implementing the market economy. If we obstinately ask the enterprises operated by foreign businessmen to do business according to the plan, the travelling businessmen will flinch and will even be reluctant to come and make investment. Then we will by far from implementing "special policies" or "flexible measures." This will inevitably affect the smooth development of the economic construction of the special zone.

Of course, when we say that the Shenzhen special zone is primarily implementing the market economy, we are not saying that it does not have a planned economy at all. For instance, in such aspects as overall planning, investment projects, land use, the number of years set for contracts, the scale of business, the scope of trade, labor wages, the management of foreign exchange and preferential financial terms, we can formulate some clear regulations so that there are rules for the travelling businessmen to go by when they make investments, and also that we can implement planned management to a certain degree. Nevertheless, we must also realize that this is not enough to directly include the majority of the commodity circulation of the Shenzhen special zone into the planned economy.

Thus, in sum, we still cannot say that the planned economy is playing a leading role in the Shenzhen special zone. At present, we can only say that the market economy is playing the leading role and the planned economy is also playing a role to a certain extent. As for the prospect of development in the future, it is possible that with the increase in the component of the socialist economy that we will gradually expand the role of the planned economy and narrow the scope of the market economy. But, at least, for a period of time, we can foresee that we will still be implementing the principle of the leading role of the market economy and the supplementary role of the planned economy. Otherwise, the special zone will not be any different from the other districts in the mainland.

Here, we should also add one point, and that is, in view of the development of the Shenzhen special zone itself, we certainly must have a long term plan, or at least a short term plan or annual plan. This is a totally different issue from whether or not the economic activities of the special zone should be controlled by the market economy or the planned economy. We must be clear about this.

### (III) The Issue of Labor Wages in the Shenzhen Special Economic Zone.

The system of labor wages in the Shenzhen special zone is different from other districts throughout the country. Its primary characteristic is the adoption of the system of employment contracting. This has shattered the former methods of "state monopoly of contracting and distribution" and eating out of the "same big pot" and to a large extent overcome egalitarianism. The various wage forms, for those that have abolished the various subsidies, are generally formed by the following three parts: basic wages plus floating wages plus job wages. This has closely integrated the wage income with the quality--good or poor--of the enterprise's business and the labor contribution--great or little--of the employees. This has played a considerably significant role in mobilizing the enthusiasm of the employees. The speed of development of the Shekou industrial district and the creative spirit of many factory owners are profoundly impressive. After listening to manager Zhang's introduction to the Xili Hu Resort, we can see that this has truly mobilized the vigor and enthusiasm in production of the employees, and has given full play to the intelligence and skill of the laborers. This has many advantages and can be used as reference by the hinterland.

Nevertheless, Shenzhen is, after all, a special economic zone, and we cannot copy to the letter some of its rules and regulations. This is because the wage system is related to the labor system, and the labor system is related to the production relations. In the Shenzhen special zone, the state capitalist economy plays a leading role. Thus its corresponding labor system also embodies some of this characteristic. For instance, the joint ventures are implementing the system of employment contracting. The workers needed by an enterprise are no longer contracted and distributed by the labor bureau but are hired separately by the enterprise in accordance with its production tasks and scale, and the outstanding workers are hired. The enterprise and the hired personnel must sign and execute their contract. The contents of the contract include the working terms, the wages, labor insurance and welfare, the time limit of the contract, and so forth. The contract is protected by the law and both parties must strictly abide by it. When a contract is fulfilled, it can be terminated or it can be renewed. If the contracted worker violates the rules and refuses to make improvement upon education, the enterprise has the right to dismiss the worker. After implementing this system, we have raised labor productivity, strengthened and improved enterprise management and labor management and given play to vocational skills and specialties. This system truly embodies many superior qualities. However, we must also realize that, in essence, this system of employment contracting to a certain extent carries the tendency of treating the labor force as a commodity. Although it suits the characteristic of the economy of the special zone, it may not be entirely suitable to the specific requirements of the enterprises under the system of the ownership by all people in other districts. The wage system of Shenzhen suits the characteristic and the labor system of the special economic zone and shows many outstanding qualities. This to a certain extent has realized the principle of more pay for more work. But is this really like what some reporters exaggerate in the newspapers, that this is perfect, and that this "truly implements the principle of remuneration according to labor" and that "this is called socialism is fine?

It is alright to say that it means "more pay for more work." But to say that it "truly implements the principle of remuneration according to labor" is an overstatement. This is because the principle of remuneration is a socialist principle of distribution. Only when the means of production becomes the public property of the entire society and only when the results of labor are commonly occupied by the laborers can we implement the principle of distribution of individual consumer items according to labor. This is a basic negation of the relationship in distribution of men exploiting other men for several thousands of years. Do the enterprises using foreign capital and the joint ventures in the Shenzhen special zone embody these factors and are they truly implementing the real remuneration according to labor? Not really. In these enterprises, we can say that the wage income of each laborer has realized the principle of more pay for more work and less pay for less work. But the portion of surplus labor of the entire body of laborers is still occupied by the capitalists. We cannot call this portion of "labor without remuneration" "remuneration according to labor." Undoubtedly, we welcome, strive for and even offer many preferential terms in order to attract foreign businessmen to make investments. It is because this is also favorable to our socialist modernization. But we must not

then refuse to see the objective fact that the surplus value that is created by the portion of surplus labor is occupied by the foreign investors. The reputable Jiale Furniture Factory imports all its raw materials and primarily exports its products for sale, and yet it can score higher profits than Hong Kong. Here we can see that Shenzhen has a higher rate of surplus value. Of course, we welcome the investments by foreign businessmen, and must protect their legal rights and interests, which include their due legal profits. But as materialists, we cannot regard the exploitation of this portion of surplus value as "remuneration according to labor." If we do so, we have basically negated Marx's theory of labor value and theory of surplus value. Although news reports do not strive to be academic in every word, we should still clarify the scientific implication of "remuneration according to labor."

Let's not talk about profit but just about wages per se. It is not all perfect and fair. According to some materials from investigation, in some joint ventures in Shenzhen, the Chinese and foreign higher level employees do not have the same pay for the same work. Thus, we must be realistic and practical in handling the labor wage system in the Shenzhen special zone, and conduct analysis and study in a one divided by two manner.

#### (IV) The Issue of the Building of a Spiritual Civilization in the Shenzhen Special Economic Zone.

With the rapid development of the building of a material civilization, objectively we inevitably ask for a corresponding development in the building of a spiritual civilization. The purpose of our setting up special economic zones is to make use of capitalism to promote the development of the socialist modernization. In the course of doing so, we must build the special zone into a window that embraces all kinds of achievements in politics, economy and social civilization in order to demonstrate fully the superiority of the socialist system. Thus, we must not treat lightly the building of a spiritual civilization in the special zone.

Shenzhen historically was only a small town on the railway line. It was extremely backward culturally. In asking that it become a modern large city that has a population of millions in the near future, we require a large number of scientific and technological personnel. It definitely will not work if the building of a spiritual civilization there lags behind and it is totally dependent on personnel being brought in from other places. Presently, many school age children and young people do not attach importance to study and their pursuit of money surpasses their interest in scientific and cultural knowledge. They only want to learn some skills, are impatient to become contract workers, and are satisfied if they can earn over 100 yuan of wages. Even the students who are in school do not do their homework when they return home and spend most of their time watching television. Day and night, they watch the television programs from Hong Kong, most of which are vulgar and silly. Social order is fortunately peaceful because of the good general employment condition. But in social consciousness, the concept of superstition that "wealth is predestined" and the thinking of worshipping things foreign that "wealth comes from abroad" are widespread. This is not at all surprising.

This place is divided from Hong Kong by a river. Every day, a large number of foreign businessmen and compatriots from Hong Kong come back and forth. Now we are importing large amounts of western capital. We cannot help importing some western ideological consciousness as well. But we should have confidence in creating a prettier, newer, lovelier and more exciting culture and art to fill this vacuum. We must put out more dramas and movies and television programs that are good for people and win the viewers over. At the same time, besides building the Shenzhen University, we must also set up more cultural stations, cinemas, technical workers continuing education classes and all kinds of sparetime schools, and cultivate this cultural field as soon as possible and put on display at this international window--Shenzhen--the force of our socialist spiritual civilization for the western bourgeoisie.

9335

CSO: 4006/675

GANSU VICE GOVERNOR WELCOMES FOREIGN TRADE

HK140834 Hong Kong WEN WEI PO in Chinese 11 Sep 83 p 16

[Article by Hou Zongbin, vice governor of Gansu Province: "Take Advantage of Gansu's Superior Features, Promote Economic Cooperation"]

[Text] This is the first time that Gansu Province has held an export commodity exhibition in Hong Kong. The purpose of this exhibition is to increase understanding between ourselves and our many different friends in Hong Kong and other countries and to strengthen economic trade cooperation. I would like to take this opportunity to give a brief introduction to the basic situation in Gansu Province and the prospects for foreign investment and economic cooperation.

Gansu Province, also referred to in short as Gan or Long, has a complex topography, with a total cultivated area of more than 53 million mu, more than 50 million mu of forested areas, and around 20 million mu of grasslands. In addition, there are also vast areas of wasteland suitable for cultivation and forestry and animal husbandry and thus the future prospects for developing agricultural and forestry production as well as diversified management are extremely bright. There are a great number of products which come from Gansu and this is especially true of Gansu's agricultural by-products and local products. Gansu has more than 400 kinds of materials often used in Chinese medicine, of which around 70 to 80 million jin are harvested annually. The five main products, namely astragalus membranaceus, *sinensis*, *ligosticum*, licorice root, *rigoticum*, *kab* *quanshui* *rheum officinale* are all of high quality and are produced in large quantities and thus they have won a reputation for themselves both in China and abroad. The annual sales of *centiana macrophylla*, *jianghuo* [1203 3172], Chinese wolfberry root bark, Chinese ephedra, *thorowax*, gypsum, *cimicifuga foetida*, *scutellaria baicelensis*, *acanthopanax* bark, herbaceous peony root, and *salvia miltiorrhiza* total around 1 million jin. Chrysanthemums from Qingyang are a rich gold in color, tender, and have a beautiful taste. The black melon seeds have a thin shell but are fleshy and rich in oil with a rich fragrance and they are now a well-known native product of Gansu Province, with a reputation on the Hong Kong and Macao markets as the "Lanzhou Dapian." The bailan gourd is also referred to as the "Lanzhou honey gourd" because of its sweetness, rich juice, scent, and attractive appearance. The Lanzhou lily is rich and fleshy, sweet and delicious. In addition it is extremely nutritious. Kushui in

Yongdeng County is one of five rose production centers in China and it ranks number one throughout China in terms of quality and quantity of roses grown there. In addition there is the black moss and funnel from Hexi, the dried chili peppers and apples from Gangu, as well as wild bracken, orpine, and yangtao peach, all of which have been warmly received on both the domestic and foreign markets. As far as arts and crafts are concerned, the carving of goblets and cups from a special luminous jade has proved especially popular everywhere. Taoyan, which comes from Gansu, is one of the three most famous kinds of inkstone in China and Tianshui lacquer carvings. Lanzhou carved calabash, and Baoan knives are all examples of precision work of great beauty.

Gansu is rich in natural resources and has ample energy supplies while its underground mining potential is also enormous. There have already been around 60 different kinds of minerals and deposits discovered in Gansu and Gansu's deposits of nickel, copper, lead, and zinc are extremely important throughout the country in terms of quantity. The production of zinc sulphide at the Jinquan zinc mine makes it the second largest producer in the world, and it alone produces 76 percent of all China's zinc. Among the paragenetic minerals, Gansu produces palladium, osmium, iridium, ruthenium, rhodium, gold, and silver. Among non-ferrous metals Gansu produces iron sulphate, lime, gypsum, mirabilite and calcium flouride, all in large quantities. There are about 50 different coal-producing areas and proven deposits now totaling 200 million tons. In addition, there are two oil fields at Yumen and at Changqing. The potential amount of hydroelectric energy that could be developed in Gansu amounts to about 12 million watts while the amount that has already been tapped amounts to only about 2 million watts. In Gansu the sun shines for many hours every day and thus there is considerable potential for exploiting solar energy.

Gansu has a very long history and a rich culture and the world famous silk road passed through this province, leaving behind it many valuable historical relics and ancient sites of interest. The frescoes and wall paintings in the Dunhuang caves are now celebrated throughout the world and considered to be a veritable pearl among the world's cultural and artistic treasures. The Ji Shan grotto is now known throughout the world as the sculpture palace of the east, while the Bingling Temple in Yongning County is considered one of the treasures of the silk road. Part of the western section of the Great Wall also runs through Gansu Province. In Xiahe County the Lapubang Temple is one of the six major lama temples in China. There is also the Wuwei western Xia Stele, the bronze galloping horse, the Guyang gate, the Yumen gate ruins and the Anxi elm forest grottoes. The Pingjing Kongtong mountain, the Yuzhong Xinglong mountain, the Xihejiuchi mountain, the Wushan Shuilian caves, and so on are all beautiful and spectacular sights and represent Gansu's most famous tourist attractions. The Kangle lotus mountain and the Zhengsong Wuyan flower festival are both extremely interesting sights connected to the Yi nationality.

## Economic Success Since Liberation

In the approximately 30 years since liberation, there have been great achievements made in economic construction in Gansu Province. In 1982, the total output value for agricultural and industrial production throughout the province stood at more than 11.2 billion yuan, a 13-fold increase over the 1950 figures, just after liberation. Of this total, agricultural production made up 3.2 billion yuan, a 2-fold increase. Total industrial production value stood at 8 billion yuan and this shows 57-fold increase over 1950. Today in Gansu Province there are now some 4,300 industrial enterprises, of which 124 are large and medium-scale enterprises. Fixed assets of Gansu's industrial enterprises have now reached more than 1.3 billion yuan, and already the foundations have been laid for non-ferrous metal, petrochemical, machine-processing, and electrical, weaving, and tanning industries. Such large-scale backbone enterprises as the Jinqiang Non-Ferrous Metal Company, the Lanzhou Chemical Industries Company, the Lanzhou oil-refining plant, the Lanzhou petrochemical machinery plant, and the Liu Jiaxia hydroelectric station all play important roles within the national economy of the entire country. The wool-spinning industry occupies sixth place in the whole country and it possesses 40,400 wool-spinning spindles. There are around 30 factories producing hand-woven carpets, which together produce about 80,000 square metres of carpet each year. Lanzhou lies at the hub of the northeast railway system and with the 4 main routes added together which lead from Lanzhou, they span over 2,000 kilometers, linking Lanzhou with all the surrounding regions. The total length of Gansu's highways amounts to around 30,000 kilometers, 7 times the number before liberation. Lanzhou airport offers more than 40 air routes throughout the country.

Since the commencement of the open-door policy in China, Gansu's export trade has developed tremendously, in terms of quantity, variety, and financial returns. In 1982, the total value of Gansu's export trade was 23 times that just after liberation, thus illustrating an 11.2 percent annual increase. The number of export commodities has increased from an original 10 or so to more than 300 today. At present Gansu now has economic trade relations with around 40 foreign countries and regions.

In the years from 1980 to 1982 Gansu Province made active and positive use of foreign capital, importing technology, developing compensation trade, and production and technology joint ventures, and arranging engineering projects and labor cooperation agreements with overseas companies. Today, Gansu has already set up more than 50 projects with overseas partners. These projects will all be of great use in promoting production, and improving product quality. For example, in the last couple of years or so the Gansu plastic packaging material plant has imported from Japan some large-scale plastic injection machinery and technology and these have already proved their economic worth. It is estimated that within 3 years the entire investment in the purchases will be made up. Last year Gansu was involved in some compensation trade with the Japanese company Marubeni. This involved the signing of a contract to import an annual 10,000 tons of ABS resin machinery and equipment, with a total value of \$17.7 million. In 1984, after the investment,

repayment would be made by means of the finished product. This year, Gansu Province intends to implement around 70 projects involving foreign capital and the importation of foreign technology, while at the same time the province is planning some 34 contracts for overseas economic cooperation. In addition, there are other projects still to be discussed and examined.

Although there have been great achievements in economic construction and foreign trade in Gansu Province, the vastness of our province and its location have meant that the economy and culture are still rather backward, that technological standards and management standards in enterprises are rather low, that economic results are rather lacking, and that economic trade figures are still not high enough. Gansu is rich in natural resources and there are many areas that have not been exploited, and that offer enormous potential in terms of economic construction and foreign trade. In order to realize the four modernizations, to ensure the prosperity of Gansu's economy and constant improvements in the material and cultural standards of living of the people, we must further develop the open door policy and the policy of domestic invigoration of the economy, and, under the premise of independence and self-sufficiency, we must work hard to develop foreign trade and actively expand all kinds of economic and technological exchanges and programs with foreign countries.

#### Actively Develop Overseas Economic Cooperation

We will work hard to make the most of our advantages, actively developing the richness of our natural resources, gearing our foreign sales to the overseas markets, improving product quality, and exporting products characteristic of certain areas. We must improve the production machinery for electrical and machine products and improve the quality of textile and weaving products. We must increase product variety and constantly try and step up the export of mineral products, nonferrous metal products, electrical and machinery products, textile products, handicrafts, and local products. At the same time we will make the greatest possible use of foreign capital, importing technology from many different places and constantly developing new projects involving technological and economic cooperation. As far as agriculture is concerned, the most obvious problem in Gansu Province is the lack of rain, and thus there is a great need for foreign capital and advanced technology and equipment to construct irrigation installations, improve the soil, open up and exploit wasteland, and carry out construction on the grasslands. This is especially true of the Hexi corridor and Dingxi region, which have already been designated as key construction regions by the central authorities, and here there are many different areas of economic cooperation possible. As far as industry is concerned, we must actively import foreign capital and advanced technology and equipment and carry out technical transformations on existing enterprises so that equipment may be even more modernized and products may improve in quality and variety while production costs fall. The key areas for improvement and changes are the light industrial, weaving, chemicals, and machinery businesses. As far as contracts and joint ventures are concerned, there should be many different kinds such as joint production, processing of imported materials, assembly of imported

parts, brandname production, joint investment management, compensation trade, and the provision of loans and land rentals. In addition, Gansu's capital construction teams are fairly strong in technological design and construction and thus are able to offer labor and contract services to foreign partners in some contracts. Joint ventures could also be organized while developing tourism and the exploitation of mineral products.

Looking to the future, there are many different areas in which Gansu may develop trade and joint ventures with overseas partners. In the past so much good work has been achieved through various joint ventures with some friends from Hong Kong, Macao, and abroad, and I would like to take this opportunity to thank those people involved and express the wish that the friendship and economic cooperation among us will become firmer and develop even more. We would warmly welcome all those involved in economic, financial, cultural, and trading circles from Hong Kong, Macao, Southeast Asia, Europe, and America to establish friendly relations with Gansu Province and develop economic cooperation and trade so as to promote the development of trade on both sides. In any overseas economic joint venture, we may assure all those involved that Gansu will abide absolutely by the principles of mutual benefit, and, on the basis of China's policies and laws, it will maintain its credit and guarantee the correct rights and economic interests of all our friends involved in joint ventures so that the joint ventures will be even more successful.

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PROVINCIAL SECRETARY ON ZHEJIANG'S FUTURE

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[Article by Zhejiang Provincial CPC Secretary Wang Fang: "Zhejiang Today and Tomorrow"]

[Text] Zhejiang Province is situated on the east coast of the motherland; it covers an area of over 101,000 square km, and has a population of over 39 million people. Its coastline, which stretches for over 2,250 km, contains the ports of Wenzhou, Haimen, Beilun, Ningbo, Zhenhai, Shenjiamen, and so on. The Zhoushan archipelago is one of our country's most famous fishing grounds; it has a warm climate, abundant rainfall, fertile soil, rich products, a beautiful landscape, and breathtaking views, and for this reason it is said to be "a land of fish and wheat, the home of silk, a kingdom of culture, and a place for travellers." It is good for agricultural enterprises, industry and commerce, is well served by air, rail, road and water transport, and provides superior conditions for the development of our country's economy and culture.

1. Recent Achievements in Zhejiang's Economic Development

Over the past few years, and especially since the 3d Plenary Session of the 11th CPC Central Committee, the people of the whole province, under the correct leadership of the CPC Central Committee and the State Council, have struggled hard with one heart and one mind to carry out the line, principles and policies laid down by the CPC Central Committee, to emancipate the mind, to seek truth from facts, and to eliminate the influence of erroneous "leftist" thinking, and have now shifted the emphasis of their work onto socialist modernization. At the same time as carrying out material civilization, they have strengthened socialist spiritual civilization as well. Throughout the province, there is now an atmosphere of political stability and unity, and a burgeoning economy.

Agricultural production has seen especially comprehensive growth. Due to the implementation of a series of policies aimed at mobilizing the initiative of the peasants, especially the universal implementation of the different forms of responsibility system with production linked to wards, the overcoming of the long-term existence of blind orders in agricultural production, mass action, and egalitarianism in distribution, the peasants have been given autonomy in production and distribution, and added to the fact that production is decided according to local conditions, and advanced science and technology have been

spread, a gratifying situation of overall increases in agricultural production has been brought about. In the 4 years since the 3d Plenary Session of the 11th CPC Central Committee, total agricultural output in our province has seen an average annual increase of 9.4 percent; while in the period between 1949 and 1978, this annual average increase was only 4.9 percent. In 1982, total grain output in our province reached 34.24 billion jin, an increase of 19 percent over 1978. Cash crops also produced good harvests. Tea production reached 2.14 million dan, an 82.6 percent increase over 1978, and the highest in the country. Silk cocoon yields reached 1.34 million dan, while citrus fruit output reached 1.57 million dan; these figures represented increases over 1978 of 0.43 times and 0.89 times respectively, both coming second place in the country. Considerable increases were also seen in the production of hemp, cotton and rapeseed. Over 12.5 million pigs were bred, a 43 percent increase over 1978. Under the premise of protecting marine resources, fishing catches remained stable at about 17.5 million dan, and in particular, production from seawater fish farms and freshwater fishing increased 44.3 percent over 1978. Total production of aquatic products was the highest in the country. Commune enterprises are a new cause which has developed over the last few years; there are now nearly 80,000 of them employing 2.57 million people, and their total income last year reached 6.63 billion yuan, a 170 percent increase over 1979.

Profound changes have taken place in the countryside, along with the comprehensive growth in agricultural production. Previously, the commodity rate of agricultural and sideline products in our province was only about 30 percent; now, it has been raised to over 40 percent. In the past, over 80 percent of peasants were engaged in producing food, whereas now about 40 percent of the labor force has been shifted from the fields to commune enterprises and other specialized production, and almost everyone, including even agriculture service personnel, is engaged at the same time in some kind of sideline industry. It can be said that our province's self-sufficient and semiself-sufficient economy is already beginning to take the road to comprehensive development of agriculture, forestry, animal husbandry, sideline industries, and fishery, and integrated management of agriculture, commerce, and industry, and is developing in the direction of specialized, socialized production.

Industrial production is continuing to grow. Since the 3d Plenary Session of the 11th CPC Central Committee, under the guidance of the principle of readjusting, restructuring, consolidating and improving, our province's industry has begun to shift from a one-sided pursuit of output to a road focusing on the improvement of economic results, and from extensive expanded reproduction to intensive expanded reproduction. The industrial structure of the whole province is becoming gradually more rational, advantages are beginning to be brought into play, and industry is maintaining a relatively high growth rate. In 1982, the total industrial output value of the province reached 23,064,000,000 yuan, an 83.6 percent increase over 1978, making an annual average increase of 16 percent. Of this, light industrial output value increased 88.4 percent in 4 years. Economic results improved likewise. In 1982, local state-run industrial output value increased 88.4 percent in 4 years. Economic results improved likewise. In 1982, local state-run industrial enterprises paid a total of 1.93 billion yuan to the state, an increase of 46.5 percent over 1978. Variety of design and color has also improved, and product quality has consistently risen. Since 1979, our province has won 10 national gold medals for quality and 35 silver medals, while 117 of our products have been registered as top-quality commodities.

Our province's industry is part of the light industrial structure, and light industries like silk, other textiles, foodstuffs, paper products, and so on, have good bases. In addition, manufacturing these products requires less energy. Therefore, we are taking the development of the light and textile industries as primary. We will ensure, from the point of view of energy resources, materials, funds, transport, technology and personnel, that light and textile products increase to the extent that sales meet demand. If we compare 1982 with 1978, cotton yarn increased by 58 percent, cotton cloth by 79 percent, white filature silk by 21 percent, silk woven products by 74 percent, machine-made paper by 81 percent, cans by 150 percent, alcoholic beverages by nearly 200 percent, bicycles by 13 times, sewing machines by 260 percent, and television sets from something over 6,000 to over 200,000. The growth in agriculture and the light and textile industries brought about a flourishing market. Now, the vast majority of nonstaple foodstuffs and industry products for daily use are plentiful enough to meet demand, and consumers have a larger margin for choice.

New developments have been made in education and culture. The admissions system in schools of higher education has been restored, and the number of such schools has been increased from the previous 11 to 22. In 1982, the number of students at school reached 36,000, a 160 percent increase on the previous figure. In 1979 a TV university was set up, and has now enrolled over 28,000 students, with over 15,000 under its immediate supervision. Vocational education in many forms has begun to flourish; in 1982, the number of students taking up vocational studies reached 716,000, while over 108,000 people participated in some form of specialized technological training. Ordinary education improved both in terms of the number of students entering school and the standard of teaching. Due to increased numbers and improvement in methods experimentation, science and technology won new achievements. Since 1978, the province has made over 3,000 achievements in scientific research, of which nine won national invention awards, and 1,188 won provincial awards for outstanding science and technology results. Since the introduction of the contract responsibility system, the peasants have been hungrily studying scientific knowledge, and science personnel have never before enjoyed so much respect and welcome from the peasants. Both in the countryside and in the towns, the tendency toward a disrespect and contempt for knowledge and intellectuals, which has existed for such a long time, is being effectively overcome. New achievements have also been made in the fields of the arts, journalism, publishing, hygiene and physical education.

The lives of the people in town and countryside have been markedly improved. Over the last few years, the party and government have exerted great efforts to improve the people's lives on the basis of enhancing production. In the last 5 years, over 1.08 million urban people awaiting employment have been placed in jobs. During this period, there have been three adjustments in the wages of staff and workers. The total amount of wages paid to staff and workers in enterprises owned by the whole people increased by 113 percent from 1977 to 1982. The peasants received even more economic benefits. During the 4 years from 1979 to 1982, the increase in the value of sideline products alone increased the income of the peasants by 3.6 billion yuan, an average per capita increase of 111 yuan. Per capita income among the peasants in 1982 had increased by 160 percent over 1977. During these 5 years, over 13 million square meters of housing for staff and workers was built, which was 1.75 times the total amount built over the previous 28 years. Even more new houses were

built in the countryside, with over 30 million square meters built in 1982 alone. Savings deposits among both urban and rural residents increased by 3.5 times between 1977 and 1982. Almost all households have added to their furniture. Medium- and high-grade goods like TV sets, radiocassette players, washing machines, and refrigerators have now become hot-selling items.

## 2. Tentative Plans for Creating a New Situation in Zhejiang's Economic Construction

In accordance with the spirit of the 12th CPC National Congress and the real situation in our province, our struggle goals are: under the premise of constantly raising economic results, the total output value of agricultural and industrial production will quadruple by the year 2,000 over 1980's figures, and efforts will be made to surpass this goal, and to bring the material and cultural lives of the people to a comfortably well-off standard. Naturally, there will be many difficulties on the road ahead, but we will struggle hard, open up the future, actively forge ahead, overcome difficulties, make further use of the merits of the socialist system, and staunchly and unbendingly carry out this strategic aim.

The Sixth 5-Year Plan now in progress represents an important step toward achieving the magnificent goal for the next 20 years. The primary demands of our province's Sixth 5-Year Plan are as follows: by 1985, total industrial and agricultural output value must reach 42 billion yuan, an increase of 39.4 percent over 1980 and an annual average increase of 6.8 percent; financial income must reach 4 billion yuan, meaning an average annual increase of 5.4 percent; the natural population growth rate must be controlled within 0.15 percent; there must be relatively great development in education; foreign trade must increase considerably; and consumption funds among urban and rural people must increase by an annual average of 6.3 percent.

In order to achieve the above goals, we must prepare to work hard in the following areas;

First, we must make great use of the advantages of the mountains and sea, and bring about overall agricultural development. Our province possesses only 7 fen of cultivated land per capita, and all cultivation, whether it be of grain or of cash crops, must be done on an intensive basis, so as to raise the per-unit yield. At the same time, we must open up and utilize in a planned way barren and mountainous regions, stretches of water, small streams, and scattered pieces of land, so as to expand the area of cultivatable land. Our province contains over 100 million mu of mountain land, of which 80 million mu is suitable for forestry. This is one of our great advantages. We are preparing to combine our experience of the contract system with the characteristics of forestry production, and will adopt methods like distribution more private plots of mountainous land, contracting such land to households, forming combines to carry out afforestation, and collectively closing hillsides to livestock grazing and fuel gathering to facilitate afforestation. We will thus mobilize the enthusiasm of the tens of thousands of peasant households for afforestation, supplement weak points with advantages, carry out different forms of economic management, and carry out comprehensive utilization. By 1990, we will increase the average annual output value of each mu of land suitable for afforestation by four times its present value, and bring about a marked improvement in the appear-

ance of our hillsides. Our province possesses a vast expanse of shallow sea, sandy areas, and inland water which can be utilized, and we are now adopting measures like contracting to households and integrated economic management so as to develop aquatic breeding and working hard to quadruple the amount of fish bred in our shallow waters by the end of the 1980's or a little later. Our province has rich labor resources, and many different roads to production open to us, so we are preparing to adopt different forms, like integrated economic management and individual management, to develop agricultural and sideline product processing, fodder distribution, water transport, building materials, commercial services and other trades, so as to shift the surplus labor in the countryside to industry, sideline industries, commerce and other service industries.

Second, we must ~~amass~~ financial and material strength so as to strengthen key construction with energy resources and transport and communication as its core. We have a tight energy situation in our province and backward transport and communications, which are important factors limiting the growth of our national economy. If energy resources and communications fail to progress, the national economy cannot possibly grow. Therefore, the development of energy resources and the construction of communications will be the centre of our province's economic construction from now on. Our province lacks coal resources, but has rich hydropower resources, and our hydroelectric facilities at present have the capacity to produce six million kilowatts; but the utilization rate of these facilities at the moment is only about 35 percent. We are now preparing to construct certain large- and medium-scale hydropower stations, and at the same time to build an appropriate number of thermal power stations and nuclear power stations. During the periods of the "Sixth 5-Year Plan" and the "Seventh 5-Year Plan" the key construction projects arranged by the state and the province are as follows: Hydropower stations at Wencheng Coral Creek, Lishui stone embankment, Qingtian sandpit, and Yunhe rapids, thermal stations at Zhenhai, Taizhou, and Beilungang, and a nuclear power station at Qinshan Mountain. With respect to communications construction, initial organization has been carried out for key construction projects as follows: railway engineering for the Shanghai-Hangzhou and Zhejiang-Jiangxi multiple-track railway, and railway projects from Beilun Harbor to Ningbo and from Changxing to Nanjing, expansion projects at Ningbo, Wenzhou and Haimen Ports, and projects to link up the Beijing-Hangzhou Canal and the Hangzhou-Ningbo Canal. Once these projects have been completed, the tight energy situation in our province will be eased, and there will be a relatively large improvement in communications conditions.

Third, we must gradually establish an industrial economic structure which is rationally organized, technologically advanced, whose different departments all develop in a concerted fashion, and which is able to make use of the advantages of Zhejiang. That is to say, we must fully utilize our advantages, such as our good basis in the light and textile industries, our rich labor resources, and our many skilled craftsmen, actively to develop the production of such things as silk, textiles, foodstuffs, machine-made paper, handicrafts and building materials, and make great efforts in our traditional and brand-name products which enjoy widespread renown on the domestic and foreign markets. The machinery industry in our province has its own special characteristics. For example, our complete sets of thermal power plant equipment, com-

plete sets of medium- and small-scale hydropower equipment, measuring instruments, high-efficiency precision machine tools, foodstuffs machinery, surveying instruments, and so on, have already won a certain fame within and outside the country, and their production will be an important part of development from now on.

Fourth, we must stress investment in intelligence resources, and quicken the pace of personnel training. At present, the lack of able personnel is felt deeply in all spheres. This is an acute contradiction which we have encountered in the course of opening up a new situation in economic construction. The way to solve this problem, apart from rational employment of existing personnel, and giving full play to their function, is to make great efforts to develop education and science, and as fast as possible to create a large number of construction personnel. Some of our comrades, as soon as they hear of a factory going into operation, are exultant, and are very willing to part with money, but are not half as enthusiastic about education and science. We must help these comrades to understand this reasoning: the creation of able people is a project of vital and lasting importance, and investment in intellectual resources is a more important investment. Without the vigorous promotion of education and science, the reinvigoration of the economy is an impossibility. Therefore, we must adopt a series of effective measures to improve education and science. For example: quicken the pace of universalizing primary education; reform the structure of middle school education, and make great efforts to develop vocational education; create different levels, different regulations, and different forms to quicken the development of higher education; mobilize all aspects of society, including industrial and mining enterprises, rural commune brigades, democratic parties, mass organs, and so on, to carry out various forms of education and science.

### 3. Prospects for the Development of Foreign Trade and Technological Exchange

Opening up to the outside and enlivening the domestic economy represent basic policies long upheld by our country. Our province has had commercial links with foreign countries for a relatively long time. Since the founding of the new China, foreign trade has grown constantly. Since autonomy over management of exports was introduced in 1981, foreign trade has developed even faster all over the province. In 1982, foreign trade purchases amounted to 2.2 billion yuan, an increase of nearly 100 percent over 1978. Of this, self-managed exports accounted for 75 percent. Products for export increased from 700 varieties in 1978 to over 1,200 varieties in 1982, of which backbone products, which were purchased to a value of over 10 million yuan each, included silk, tea, tins, drawnwork, filature silk, straw products, cotton cloth, live pigs, rabbit fur, and so on, in all over 30 products. Over the last few years, a large number of new, small, live products have been sold on the international market, such as levers, live clam worms, garoupa, loaches, and so on, and have been very popular among foreign visitors. There have now been established 18 foreign trade corporations throughout the province, which have established direct trading relations with 120 countries and regions throughout the world; many products now have basically stable markets and end users. Banks, commercial inspection units, customs, insurance, and other organs have also been enriched and strengthened. As regards the transport of goods for import and

export, a provincial oceangoing transportation company has been established, which has opened up sea routes to Hong Kong, Japan, and other regions. At the same time, air freight services to foreign countries have also been started up.

In order to hasten our steps toward economic construction in the province, we must continue to maintain the policy of opening up to the outside, and, on the basis of mutual benefit and equality, we shall expand foreign trade. By the year 2000, we plan to have increased the total volume of foreign trade throughout the province by three times, that is, from 1980's figure of \$700 million to a figure of \$2.8 billion by the year 2000. In order to achieve the above aim, we shall work hard in the following respects:

1. We will continue to develop production and export of agricultural and sideline products and those traditional products which use agricultural and sideline products as their raw materials, and bring about a relatively big increase in the export volume of products such as silk, tea, cans, drawwork, straw and hemp products, cotton cloth, cotton fabrics, clothing, paper, live pigs, rabbit fur, lambskins, and so on.

2. We will actively develop the production and export of heavy industrial, chemical and mechanical and electric measuring products, in particular machine tools, drills, industrial chains, chain blocks, gear boxes, electric meters, water meters, and other brand-name products, and other complete sets of equipment like small hydropower machines, thermal power machines, oxygen producing machines, and light industrial and textile machines, along with new electric meters needed on the international market.

3. Our province possesses rich natural resources such as fluoride stone, potassium alum, active kaolin, granite, green slabstone, and sandstone, which are now being opened up and transported by large ships from Beicang and other ports to open up new markets and expand the volume of exports.

4. We will raise the quality of export goods, and gain international fame for excellent quality, while working hard to increase product variety and improve packaging.

5. We will manage properly base areas and special factories and workshops for export goods, and work hard to assist the production of export goods. Special loans and other funds for industrial goods for export will go especially to support production in export goods base areas, and will be used especially for the technical transformation and renewal of equipment in factories specializing in export goods. We will also select certain products which are typical of the province and which are suited to the needs of the international market, and establish new base areas containing factories devoted to production of export goods.

6. We will actively adopt forms of trade in general international use. Our province has relatively large production capacity in the areas of cotton textiles, woolen textiles, leather, paper, machinery, tools and the chemical industry, and we shall in the future actively expand processing industries in these fields. In addition, we will also develop compensation trade and joint ventures, and in a planned way introduce advanced technology and import suitable machinery and equipment, so as to transform a large number of old enterprises.

7. We will make great efforts to develop foreign contracting projects and labor cooperation. Our province has abundant labor resources, and many skilled craftsmen, with over 400,000 of them in the construction industry alone, and we also possess a certain technological basis and a certain amount of technological facilities. We also have a number of specialized personnel in the fields of medicine and hygiene, oceangoing shipping, cooking, [word indistinct] silkworms, and rice cultivation; in the sphere of professional techniques, we have already carried out successful cooperation with [word indistinct] countries and regions, and from now on we are willing to develop further this sort of cooperation with foreign personages.

8. We will actively develop tourism. There are many beautiful, enjoyable places in Zhejiang; apart from the world famous four lakes, there are the scenic spots of the Fuchun River and the Xinan River, Shaoxing, which was the birthplace of Lu Xun and is a place of ancient culture, the ancient Buddhist temples of Ningbo and Tiantai, the Putuo Buddhist area of Zhoushan, the fascinating area of Yantang in Wenzhou, the Mogan Mountain and Yaolin wonderland near Hangzhou, and so on. The natural scenic spots scattered all over the province, like the lakes, mountain forests, valleys and springs, contain no less than 10 years which await development. We will use these natural resources, restoring those which need to be restored, opening up those which need to be opened up, and improving all aspects, so that we may give an enthusiastic welcome to people from all walks of life from all over the world who come to stay.

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QINGHAI GOVERNOR ON FUTURE OF PROVINCE

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[Article by Qinghai Provincial Governor Huang Jingbo: "Qinghai's Economic Development Prospects"]

[Text] Previously, Qinghai was a place little known among foreigners, and concerning some situations, they merely parroted the views of others, or only looked at the surface, failing to look at the facts, and one-sidedly considered that Qinghai was a piece of backward, poor, barren land; but the real situation is not like this. I have only been working in Qinghai for a little over 6 months, and do not yet fully understand the whole situation in Qinghai, but from what I understand of the place, Qinghai is richly endowed, with much agriculture and animal husbandry, wildfire, numeral deposits, and energy resources, which urgently await development.

1. General Situation

Qinghai Province lies in the west of our country, and the upper reaches of the Changjiang and Huanghe Rivers form a part of Qinghai's high plateau. It has a long history; it was the base of the Western army in ancient times, the Qian Nationality area in Han times, the Western Han lords lived there in the time of Wang Mang after which the Xihai and Heyuan lords lived there, and was the area ruled over by the Tibetan regime in Tang and Song times. During the Yuan Dynasty, its northeastern part was called Guide prefecture, and came under the jurisdiction of Gansu, while the rest of it belonged to the Tibetan chiefs and to Dougansi. In Ming times it was occupied by Western barbarians, while in the Qing Dynasty its north and east were made into the Xining prefecture, under the jurisdiction of Gansu Province, while its northern part was a special Monggol region, and its south was ruled over by Qung Shu and others. In September 1928, the KMT's Nanjing Government decided to make Qinghai into a province, with Xining as its capital. It covered an area of 720,000 square kilometers, or one-thirteenth of the total area of the country. Within its borders stretched the mountain ranges of Kunlun Mountain, Qilian Mountain, Aejin Mountain and Tangula Mountain, which rose to an average height of over 3,000 meters above sea level. The Changjiang, China's longest river, and the Huanghe, originate respectively in the province's Bayankela mountains and the highest peak of the Tanggula Mountains, the southwestern face of the snowy Gelauan Mountain. Qinghai Lake is the biggest lake in our country, with a surface area of 4,500

square kilometers. The Qaidam Basin in the northeast of the province is one of the three great basins of our country, and possesses rich coal deposits and agricultural and animal husbandry resources.

There are many minority nationalities living in the province, the main ones being the Han, Zang, Hui, Tibetan, Sala, Monggol and Kazak. The total population at the end of 1982 was 3,928,000, generally known as the 4 million people, of whom 1,536,000 are national minority people, making up 39.1 percent of the total population. But national minorities cover 96 percent of the total area of 720,000 square kilometers, so many of the main economic resources lie in the areas inhabited or farmed by the national minorities.

Before the revolution, Qinghai was a very isolated region, and long remained in the fetters of the feudal system; the Mabufang Clan ruled for over 40 years, while the pastoral areas had a strong tradition in the slave-owning system; basically, it had a monolithic economy of agriculture and animal husbandry, there was no industry or mining, production forces were low, and the people's lives were extremely tough. After the liberation, under the leadership of the CPC, democratic reforms, socialist transformation and socialist construction were carried out, which brought a fundamental change to the face of Qinghai Province, bringing unity among the nationalities, political equality and freedom, an ever-growing economy, and a huge improvement in the lives of the people. The major conditions were:

**Industry:** Before the liberation, the province basically had no industry whatsoever, with only eight handicraft factories with an output value of only 18 million yuan. After the liberation, modern industries were gradually established. There have now been established industrial departments and enterprises in the fields of light industry, chemical industry, electronics, coal, oil, electric power, metals, machinery and building materials, with the various enterprises totalling something over 1,300, of which 38 are large- and medium-scale enterprises.

**Animal husbandry:** Qinghai has a long history of animal husbandry; it is the fundamental economic basis for the survival of the national minorities, and a major backbone of the national economy. On the eve of the liberation, the total number of animals was 7,480,000 and sheep wool production was only something over 5 million jin. After the liberation, at the same time as destroying the feudal and slave systems, the party and government made great efforts to support the development of animal husbandry production, and adopted a policy of cutting or eliminating taxes, invested a great deal of money, and provided many forms of financial aid and loans, while three times raising the price of animal products and thereby promoting the development of the animal husbandry industry, and making the economy of the pastoral areas flourish, so that by the end of 1982, there were 22 million animals of various kinds, an increase of nearly two times.

**In agriculture:** Before the liberation, there were 6,800,000 mu of cultivated land, of which 748,000 mu consisted of paddy fields, but by the end of 1982, cultivated land had increased to 8.7 million mu, nearly 2 million mu more than before the liberation, of which paddy fields made up 2,426,000 mu. Total grain

output reached 1.86 billion jin, an increase of 1.77 times over 1949. Production of oil-bearing crops reached 116,650,000 jin, a six-fold increase over 1949. Other cash crops like broad beans also developed greatly.

In transport and communications: Before the liberation, Qinghai had no railway or air traffic, and only 472 kilometers of simply-built highway and 40 worn out heavy goods vehicles. After the liberation, main and feeder highways were constructed between Lanzhou and Qinghai, Qinghai and Xizang and Qinghai and what used to be Xikang and is now Western Sichuan, and a network of roads has begun to be formed with Xining as its center. There are now 13,675 kilometers of road open to traffic, and 21,800 public vehicles. As for rail transport, the Lanzhou to Qinghai railway, completed in 1957, made a further step toward opening contacts between Qinghai and the rest of the country. It is now already open as far as Golmud. The air transport industry has also gradually developed; Xining has a small airport, and Golmud has a large-scale civil airport. So there have already been some changes in the historically isolated situation of Qinghai.

In science, education, culture and health: Before the revolution, the science and education situation in Qinghai was extremely backward; there was not one higher education institute or scientific research establishment in the whole province, the people of the various nationalities had for a long time been locked in feudal superstition and ignorance, illiteracy was widespread, and sickness had reached epidemic proportions. After the liberation, there was great development in science, education, culture and health. Now, the province has 31 independent scientific research organs, and the number of scientific research personnel has reached 78,000; there are six institutes of higher education, 664 middle schools, 6,256 primary schools, 37,000 teachers, and over 750,000 students at school.

## 2. Prospects for Qinghai's Economic Development

In Qinghai, which gives people the impression of coldness, poverty, and backwardness, the prospects for economic development represent a great cause of concern to the people of all nationalities throughout the province, and to the people of the whole country, our compatriots in Hong Kong and Macao, our friends from overseas, and business people from all circles. It is a question which has been repeatedly discussed by the provincial party committee and government; analysis has been made of the difficulties of improving Qinghai's economy and the factors favorable to such improvement, and, after investigations for feasibility and reliability, there has been put forward for our province a "seventh 5-year plan" and some initial ideas for the economic development in the 10 years following the plan. After discussion, it was unanimously agreed that there are rich prospects for the economic development of Qinghai, and as long as we adhere to the series of lines, principles and policies drawn up by the CPC Central Committee for the development of the national economy since the 3d Plenary Session of the 11th CPC Central Committee, and make full use of our advantages in natural resources, then Qinghai will quickly progress from poverty to prosperity and from backwardness to an advanced state. We are considering eight big advantages in the construction of Qinghai: Animal husbandry, hydro-power, lake salt, asbestos, coal, oil, nonferrous metals and native products, which are manifested in the following aspects:

First, we have a vast territory and a small population. One of the characteristics of Qinghai is its large area and sparse population. In a certain sense, [word indistinct] a situation is a disadvantage to economic construction, but in another way it is also an advantage. We only have an average of 5.4 people per square kilometer, in marked contrast to the dense population and tight construction space in coastal provinces. The obvious advantage of large territory and sparse population is that there is a lot of space available for construction; for instance the Bolmud district, which is to be a key area for economic construction, will not need to have a lot of money spent on small pieces of land for a factory base area, so provincial investment can be saved in large quantities; another advantage is that relatively good economic results can be achieved, and a large quantity of goods needed on the domestic and international markets can be provided. In absolute figures, the total agricultural and livestock output in our province is quite low, about 500 yuan per capita, which is about the medium standard for the whole country. With large-scale economic development, our province's per capita output and the products, profits and income it provides for the state will quickly come much closer to the advanced provinces and regions, and it may even become one of the advanced provinces and regions, and it may even become one of the advanced areas. With its rich natural resources, our province will be able to introduce electrification relatively fast.

Second, there is massive potential in livestock production. Our province has 800 million mu of grasslands, over 500 million mu of usable grass farms, and about 22 million head of livestock; this constitutes a great advantage in the national economy of our province. Livestock production has the merits of small investment, high production, quick turnover period, high economic value, and so on, and as long as we adopt comprehensive measures to protect and utilize natural grass farms, build base areas for producing man-made fodder, build fodder processing factories, improve the strains of grass and livestock, strengthen management over breeding, readjust the structure of livestock, and quicken the turnover period for livestock breeding, then both the quantity and quality of livestock will rise considerably. Potential in livestock breeding also lies in the fact that, due to backward technology and poor management in this field at present, there are huge wastages of money; according to statistics, there are losses of as much as 100 million yuan and more every year in wastage of fodder alone. Added to the lack of straw feed, there is no way to prevent the deaths of young livestock from hunger and cold in the winter. Because of the backward situation in manual shearing, less wool is obtained than through mechanical shearing. Due to backward slaughtering techniques, and a lack of sufficient freezing equipment, cows and sheep cannot be slaughtered during the period when they are fattest. Even a lot of lean meat, offal and bones are wasted. Moreover, due to a lack of protection against cowflies, cowhides are marked and are also marked by knife cuts made when skinning the animals; these factors, along with hide poison and the like, create losses amounting to over 10 million yuan. These losses may be quickly recovered if we just put in a little more investment and work hard at economics.

Third, agricultural potential lies not only in the fact that we still have over 1 million mu of barren land suitable for agriculture in our province, especially in the Golmud Basin where weather conditions are warm, which can

produce relatively high output as long as we have water and fertilizer; there is also great potential in the production of single agricultural crops. Last year, I went to visit the No 8 production team of the Xizhuang production brigade of the Xilijiang commune in Wulan County in the Golmud region. There, a commune member of the Sala nationality had contracted to farm 35.3 mu of land, and his average per mu yield had reached 1,172.32 jin; he had a total of 23.99 mu of wheat (76-338 strain), which produced an output of 1387.7 jin, which was three times higher than the average output of that area, which was something over 300 jin. At the same time, there is also a lot of potential in using the advantages of cash crops to readjust the structure of crops in general; for instance, our cash crops such as broad beans, rapeseed, potatoes, apples, garlic, pepper, oranges and so on are all high in value, and are well-known on the domestic and foreign markets; if we rationalize the [word indistinct] tap potential, and make use of the advantages of these nonstaple foodstuffs, we will be taking an important path to increasing national and peasant income.

Fourth, with respect to wild animals and plants, there are valuable wild mushrooms, brakeferns, seaweed, root vegetables, Chinese caterpillar fungus, fritillary bulbs, licorice roots, snow lotuses, and other wild plants and famous herbs. There are also over 10 million marmots and over 1 billion rabbits and other famous wild animals, and as long as we gather our forces to pick them, dig them up, capture them, and process them, their production and output value will be high. This is another wealth-creating method which will bring prosperity to the people of all the various nationalities.

Fifth, our water power and mineral deposits are both abundant. The characteristic of our natural resources is that they are distributed in concentrated areas, they are plentiful in supply, and the vast majority of them has not yet been opened up. According to surveys by the geological department, our province contains a total of 35 different minerals (sylvite, lake salt, magnesium, lithium, natural sulphur, chemical limestone, iodine, bromine, silica, asbestos, boron, piezocrystal, glass, usable quartzite, silver, indium, selenium, cobalt, natural alkali, cadmium, mirabilite, associated sulphur, mica, chromium iron, lead, germanium, nickel, tin, smelting rock, zinc, mercury, platinum, gold, tellurium, and arsenic) which come in the top 10 positions of the whole country in terms of quantity, of which potassium chloride, lake salt, lithium, magnesium, iodine, carbon, natural sulphur, asbestos, quartzite, and chemical limestone come first in the country, and of which potassium sulphate reserves amount to 97 percent of total national reserves. Boron, natural alkali, hydraulic crystal, and glass quartzite come second in the country; silver [illegible] indium, selenium, and mirabilite come third in the country. Oil prospecting is going on at present in Golmud, and prospects are considerable. According to calculations by the departments concerned, the potential value of mineral deposits so far discovered in the whole province is as much as 1.1 trillion yuan, of which those contained in the Golmud region account for 93.2 percent. Hydropower resources in our province amount to nearly 20 million kilowatts, of which the mainstream of the Huanghe River from Longyang Gorge to Sigou Gorge has six steps which can be opened up. Because this stretch of the river alternates between flat areas and gorges, and has good topographical conditions, with relatively few engineering projects and little flooded ground, with a small shifting population, and convenient transport, it has become known as a rich mine of hydropower resources.

These resources are also relatively concentrated, and easy to exploit. Once it has been exploited, the area will produce large quantities of products of high value, high profit, most of which are products in short supply which are urgently needed by the state or easily marketable on the international market.

Sixth, work in all aspects already has a certain foundation. After over 30 years of hard work, our province's economic construction has already reached a certain scale, and we have already achieved initial construction of an industrial system which is comprehensive and independent; we have consolidated the foundations and created good conditions for the new development of the future. At present, our province's enterprises possess great intensional potential. According to statistics, if industrial forces of production in the Xining District reached the average level of the 220 cities in the whole country, output value for 1 year would increase by 2.15 billion yuan; profits produced per 100 yuan of fixed assets in Xining, under the same conditions, would increase by 357.19 million yuan; profits produced per 100 yuan of output value, again under the same conditions, would increase by 335.5 million yuan.

From the above few aspects, we can see that Qinghai has rich and objective prospects for economic development, and as long as we work steadily under the correct leadership of the CPC Central Committee, and determine to implement the line, principles and, policies drawn up since the 3d Plenary Session of the 11th CPC Central Committee, emancipate our minds, carry out scientific organization in economic work, make use of our advantages in natural resources, exploit all the various resources in demand both at home and abroad, and make up for the gaps in our domestic and foreign economy, then our progress toward the four modernizations can be swift, we will be able to turn from poverty and prosperity, and from backwardness to progressiveness, change the situation as fast as possible, and make the necessary contributions to the four modernizations throughout the country.

Of course, we must also realize that there exist many difficulties on the road to economic improvement in Qinghai; we are a long way above sea level, the atmosphere is very cold, and natural conditions are relatively poor, all of which has a certain amount of bad influence on the growth of agricultural crops and on industrial production; moreover, our province is situated a long way away from economically and culturally developed regions, and from ports and export outlets, with long transportation routes; our economic starting point is low, we have financial difficulties, and our technology is backward; and culture, education, scientific research and social development are all relatively backward, which also affects economic development. Therefore, whenever we do something, or carry out a piece of construction, the difficulties we encounter and the price we have to pay may be greater than the difficulties and sacrifices experienced in the coastal provinces and cities; this is something which we must be very clear about. However, as long as we become revolutionary transformers, remain resolute in our faith, have the courage to overcome difficulties, start with the facts, make the most of our strong points and avoid our weak ones, learn from others' merits to supplement our weaknesses, remain determined, work steadily, and make solid progress, these difficulties will not be hard to overcome.

### 3. Some Tentative Ideas for the Development of Qinghai's Economy

I recently read an article entitled "The Economic Management Techniques of the Fanli and Zhuo Clans," which said that the Fanli and Zhuo clans both lived in the Warring States period, and in order to achieve prosperity, the Fanli clan chose as an economic and commercial base area somewhere where transportation was convenient and goods and materials could be easily collected and distributed, while the Zhuo clan, on the other hand, chose an economic base with bad transport conditions, but plentiful resources; this land was called Qiong, and was situated in the distant border areas (it is now Qiong Xia County in Sichuan Province) and because both clans made full use of their respective advantages, both became immensely rich. Conditions today have changed a lot from those of 2,006 years ago and more, but Qinghai is much like the Qiong of the Warring States period, in that it has ample resources, and a rich basis in goods and materials, so that though it is situated in the remote border areas, as long as we suit our actions to the times, and are even stronger than the Zhuo clan were over 2,000 years ago, we are bound to build our province up into a flourishing area. I think that our compatriots from Hong Kong and Macao, along with people of insight from overseas, will agree with this point.

As I have just said, Qinghai is an area with abundant resources and a bright future which awaits exploitation. Over the past few years, the state has laid great emphasis on the exploitation of resources in Qinghai, and 13 large- and medium-scale projects are now under construction, all of which are being carried out with government investment; these include the Longyang Gorge Hydropower Station, the Charhan potash fertilizer factory, and the Xitie Mountain lead and zinc mine. During the "Sixth 5-Year Plan" period, the state plans to invest in Qinghai a sum equal to three quarters of total investment over the 30 years since liberation. This presaged Qinghai's advance into an important period of development in its economic construction. Our task from now on is to continue to carry out the policy of readjustment in the national economy, give full play to the advantages of our province, speed up the pace of economic development, and gradually turn Qinghai into a [word indistinct] area for the production of animal goods, chemical products, and mineral products, so that by the year 2000, under the premise of enhancing economic results, we will quadruple the total output value of agriculture, animal husbandry and industry. Though we have many conditions advantageous to the achievement of this struggle goal, we also have some things lacking; primarily, we lack funds, and advanced technology, equipment and administration. Therefore, we must from now on determinedly implement the policies drawn up by the CPC Central Committee of enlivening the domestic economy, opening up to the outside, actively introducing foreign funds, advanced technology and equipment, and thereby promote the even faster economic development of Qinghai.

Right now, we will adopt forms like compensation trade and joint ventures to use a large amount of foreign funds and introduce a lot of advanced technology and equipment, so as to further develop Qinghai's economy. Points of emphasis will be:

First, to transform agriculture and animal husbandry, and establish a base area for animal products and commodity grain. Qinghai has rich prospects for the

development of its agriculture and animal husbandry, and the problem at present is that we must form a good base area for agricultural and livestock production, and work hard to improve production conditions. We shall adopt the following measures:

1. Under the premise of putting our main efforts into raising the per-unit yield of cultivated land, we will as fast as possible reclaim barren land, appropriately open up barren land suitable for agriculture, and increase the amount of cultivated land. We will construct a commodity grain base area, concentrating mainly on the Golmud basin. This basin has rich mineral resources, and the state has already decided to carry out prospecting and mining of oil, lead and zinc, potash fertilizer, and so on; it is planned that after the "Seventh 5-Year Plan," industrial mineral factories will be developed even further. Looking at the developmental tendencies of this area's economy, we can see that it is necessary for agriculture and animal husbandry to provide sufficient grain and nonstaple foodstuffs, and because of the basin's special weather conditions, its long hours of strong sunlight, and its great variance in temperature between day and night, it is suited to the development of high-yield cash crops. Climatic conditions here are good, and there are about 1.7 million mu of barren land suitable for cultivation to be developed, over 70 large and small rivers with an annual flow capacity of 141 cubic metres per second, a surface area of over 4.4 billion metres, and a supplementary groundwater capacity of 2.8 billion cubic metres, and 1.8 billion cubic metres which can be opened up, which is entirely sufficient to reclaim barren land and irrigate the grasslands. The six state farms and 16 communes in the area are at present farming 700,000 mu of cultivated land, which makes the area one of our province's main areas for commodity grain, and forms a basis for further expansion. The overall plan is to develop 1 billion to 1.3 billion mu of barren land by the end of this century. Due to the relatively large proportion of low-yield land at present, and the existence of a portion of half-barren land where cultivation has been abandoned, and insufficient water-conservancy facilities, the land is not level, and there is serious leakage from channels. Therefore, from next year until 1990, we will prepare to recover 100,000 mu of half-barren land, transform 300,000 mu of low-yield land, and open up 200,000 to 300,000 mu of barren land.

2. We will make great efforts to build water conservancy projects, transform low-yield fields, and build fields which will ensure stable yields despite drought or excessive rain. At present, the province contains 2.8 million mu of effectively irrigated land, and only 1.3 million mu of land which ensures stable yields despite excessive rain or drought. During the "Sixth 5-Year Plan" period, while in the 10 years following that we will add another 900,000 mu, bringing the total amount to 4.2 million mu, while newly-developed barren lands will reach 5.1 million mu.

3. We will grasp the construction of the mountain areas, and speed up the harnessing of small rivers. Our province has a large mountainous region, and the potential for agricultural development lies in the mountains. Our tentative plan is that by 1990, we shall have brought 1,140 square km under control, so that the total area administered over the whole province will reach 3,556 square km. We will increase per capita grain output by 150 jin, an increase of 25 percent over the present figure; per capita income will be increased by 130 yuan, nearly double the present figure; per capita terraced fields will be 1.4 mu, forest and grass lands will be 2.9 mu per capita, and the problem of

drinking water and firewood for people and animals will be basically solved, while initial improvements will have been made [word indistinct] situation of poverty.

4. In animal husbandry. Our province has a low level of livestock production, a high death-rate among livestock, large wastage of sheep wool, low meat production, serious damage of cowhides and low economic results. There are many factors affecting the livestock industry; there are problems of material bases, economic management, and breeds of animals. Technological measures will consist mainly of solving the contradiction between livestock and fodder and improving strains of animals and grass, and with these as the core, great efforts will be made to strengthen the construction of the grasslands.

In order to enhance economic results, we must work hard to develop the fodder industry, and by 1985, we plan to have raised the fodder capacity to 100,000 tons per year, which will ensure supplies for specialized households, key households, and state farms in the agricultural areas, and basically solve the problem of supplementing the diet of the majority of underfed cattle in the animal husbandry areas. By 1990, production capacity will have reached 150,000 tons, with 20 jin for each head of underfed cattle in the livestock regions, and 5 jin for each lambing ewe, and ensuring supplies of fodder for draft animals, dairy cattle, pigs and poultry in the agricultural regions.

We will greatly develop and expand the mechanized shearing industry and modernized slaughter houses. In 1982, there were 1.04 million sheep shorn mechanically, only 7.5 percent of all sheep shorn. By 1985, 2 million sheep will be shorn mechanically, bringing the percentage up to 13.9, which will mean that wool production will be increased by 520,000 jin per year, an annual increase in output value of 1 million yuan. By 1990, we will do our best to shear all fine-haired sheep mechanically, and bring the mechanical shearing rate up to 40 percent. From 1986 to 1990, we plan to shear 20.2 million sheep mechanically, increase wool production by 5.2 million jin, and increase output value by 10 million yuan. If we are to achieve the above goals, we must increase the number of mechanical shearers by 1,350, and provide the corresponding equipment.

We must build freezers and introduce mobile slaughterhouses and freezers. By 1990, we will have built 15 modernized freezers, with a capacity of 9,750 tons, which will supply export needs.

5. In diversified economic management. We will expand the area planted with apples, garlic, pepper, broad beans and oranges, most of the production from which will be sold for export.

Second, the opening up of mineral deposits and water resources.

After Longyang Gorge, we will open up a hydropower station at Lijia Gorge.

The Lijia Gorge hydropower station will be situated 110 km downstream from the Longyang Gorge station, and 135 km from Xining.

We will also continue to build a thermal pit and a coal pit, construct a pure alkali factory, a calcium carbide factory, a lead and zinc smelting factory, a 100,000 ton ferroalloy factory, and in addition will also carry out technical transformation of existing factories. Therefore, apart from enthusiastically welcoming cooperation and joint investment with our fraternal provinces and cities to develop Qinghai's economy, we are also actively creating conditions and making things easier so that we can welcome foreign businesses and financial groups to invest in our province, excavate mineral deposits, exploit energy resources, and carry out wide-ranging technological exchange. This is absolutely in accordance with the spirit of the CPC Central Committee.

We warmly welcome our friends from economic and trade circles in foreign countries and regions to develop diverse forms of cooperation with us, including the introduction of advanced technological equipment, compensation trade, joint ventures, the provision of loans, and any other possible form of cooperation. If cooperation is carried out on the basis of the principle of equality and mutual benefit, we will definitely let those working in cooperation with us gain reasonable benefits, and will provide all sorts of conveniences, working hard to promote economic and technological cooperation and trade contacts.

CSO: 4006/016

PRC 'MA HONG ON PROBLEMS OF ENTERPRISES' CADRES

HK290105 Hong Kong HONG KONG STANDARD in English 29 Sep 83 p

[Text] Less than one third of the leading cadres in China's enterprises know how to run them, according to a visiting Chinese economist quoting the results of a survey.

In a speech on "prospects for modernization in China" at the Chinese University of Hong Kong yesterday, the president of the Chinese Academy of social sciences, Mr Ma Hong, said poor management could partly explain for the bad economic results in China.

"According to sample investigation, less than one third of the leading cadres in our country's large and medium-sized enterprises are well versed and know how to run them," he said.

Although achievements have been made in the past few years in training economic management personnel, a lot of work had yet to be done, he said.

Mr Ma was invited to speak at the university to mark the institution's 20th anniversary.

Mr Ma admitted that in a number of major fields of science and technology, China was two to three decades behind the advanced countries.

"In developed countries, technical personnel generally account for 30 per cent and more of the total number of workers and staff while in China's gross national product was roughly U.S. \$285.5 billion, the eighth place in the world. At that time, the United States ranking first with U.S. \$2,582 billion.

By the end of the century, it is estimated that China's GNP will amount to U.S. \$1,140 billion at its present value and it would possibly rank fifth, overtaking France, the United Kingdom and Italy.

"In terms of average per capita GNP, China's place in the world will move from the present 130th or so to 75th or so by the end of the century. The ranking is still pretty low but the economic strength of the country as a whole will be greatly strengthened," he said.

Mr Ma also quoted the secretary-general of the party, Mr Hu Yaobang, as saying the gross annual value of industrial and agricultural production would be quadrupled from 710 billion yuan in 1980 to 2,800 billion yuan in 2000.

By doing so, he said, it was necessary to bring into full play the tremendous role of science and technology. Mr Ma said another difficulty facing the economic construction was that China had a huge population.

"A striking indication of China's low level of productive forces at present is that among a population of one billion, 800 million are peasants. Although agricultural production has developed considerably, it is still rather backward."

The Chinese Government has set the target of limiting the population within 1.2 billion by the end of the century, meaning that in the coming 10-odd years, China will have at least 200 million more people, or about the population of the United States or twice that of Japan.

Speaking at the same function, the vice-chancellor of the university, Prof Ma Lin, said post-graduate studies would be the focus of development in the next few years. "We all know that the real academic studies are mainly shouldered by the post-graduate college.

For undergraduates, Prof Ma said, the annual growth of intake after 1985 would be increased to 7 per cent from the present 4 per cent. "We will also introduce part-time courses for the working youths."

Reviewing the university's past 20 years, he said it firmly followed the principle of openness for academics.

"In recent years, apart from proceeding various long-term research projects, we have opened the medical faculty and have strengthened the courses of business administration and computer studies.

"These developments could cater for the needs of the Hong Kong society and provide specialist training," he said.

CSO: 4020/006

HONG KONG DOLLAR MAY BE PEGGED TO U.S. DOLLAR

HK260150 Hong Kong HONG KONG STANDARD in English 26 Sep 83 pp 1, 14

[Article by Patrick Tang: "Government Now Acts To Halt Dollar Slide"]

[Text] The government has finally decided to take stern measures, including pegging the Hong Kong dollar to the greenback, in an attempt to rescue the local unit, which is threatening to breach the \$10 level against the American currency.

Announcing the measures yesterday, the acting financial secretary, Mr Douglas Blye, also hinted at more active market intervention.

A government statement issued last night said the moves came after a series of consultations throughout the weekend between Mr Blye and the note-issuing banks--the Hong Kong and Shanghai; and the Chartered--and other advisers.

The Hong Kong dollar skydived last Saturday when it closed at \$9.65 against the greenback--a loss of 90 cents compared with Friday's \$8.75. The 90-cent loss also marked a record for the biggest single day loss (Friday's record was 45 cents).

The acting chairman for the Hong Kong Association of Banks, Mr Michael Brown, said they have decided to peg the Hong Kong dollar to the greenback with a fix exchange rate after meetings with Mr Blye.

He said the move has been adopted in 1972--on 6 July the government stopped its dollar from floating with the pound sterling and set a new exchange rate against the greenback at \$5.65 as the sterling fluctuated violently on foreign exchange markets.

But in November 1974, this link was broken as well and the Hong Kong dollar was allowed to float independently. Since then its value has fluctuated according to market conditions.

According to Mr Brown the new rate has not been decided yet but will be stronger than the rate quoted last Saturday.

"The rate will accurately reflect the present fundamental strength of Hong Kong's economy, this is, to reflect, the actual value of the dollar," he said.

Mr Brown said the rate is expected to be decided today, adding that "I don't want to anticipate the rate at this moment."

"Mr Blye had said \$6.5 against the U.S. dollar is a reasonable rate that could accurately reflect the present fundamentals of Hong Kong's economy," he added.

Last evening, the governor, Sir Edward Youde expressed great concern about the exchange value of the Hong Kong dollar in recent days.

In a statement, Youde stated he sympathised with the people's anxieties but urged the public not be carried away by the present mood of pessimism.

"A strong export-led recovery was now underway and so the rates quoted for the Hong Kong dollar were not quite unreasonable," he said: "They certainly did not properly reflect underlying economic or political realities."

The governor stressed he was fully aware of the people's concerns and he believed everybody's interest would be best served by calmly getting on with their jobs.

"They should refuse to be distracted by alarmist chatter and misleading comments which have the effect, intended or otherwise, of damaging confidence," he said.

"The talks about Hong Kong's future are still in progress and it was not to be expected," the governor said, "that they would reach rapid results because the issues involved are complex."

Early yesterday the governor had a morning discussion with the Chief Secretary Sir Philip Haddon-Cave and Mr Blye to discuss the money crisis and ways to deal with it.

The governor held further talks with both Sir Philip and Mr Blye after he had a working lunch on board the Lady Maurine with Mr Richard Luce, the minister of state for foreign and commonwealth affairs.

Youde also held a "mini-summit" at Government House last night with Mr Luce; Sir Percy Cradock, the British ambassador to Beijing, who is also the chief negotiator at the Sino-British talks on the future of Hong Kong; Mr Ian Sinclair, the legal Adviser with the foreign and commonwealth office, and Mr Alan Donald, the assistant under-secretary of state at the foreign and commonwealth office.

A government official said last night the "meeting" could not be termed as a "mini-summit," it so happened that they were there and that they had dinner.

The government issued a statement after the meeting saying it is to make "a substantial revision of the mechanics for issuing and redeeming certificates of indebtedness to the note-issuing banks in such a way as to produce an exchange rate which would more accurately reflect the fundamental strength of the economy. The proposal will mean the assumption by the Exchange Fund of a more significant role in the exchange rate determination mechanism."

The government did not elaborate on this statement. Market analysts, however, explained that bank notes are issued against holdings of certificates of indebtedness, which are liabilities of the Exchange Fund.

Previously, banks could only issue a certain amount of bank notes by buying from the government certificates of indebtedness with an equivalent amount of sterling. In July 1974, after the sterling was allowed to float downwards, the government decided to fix the exchange value of the dollar in terms of the American currency.

But this link with the greenback broke in late 1974 when the local unit was allowed to float freely. During this brief 2-year period, bank note issues were backed up by the U.S. dollar. And from November 1974, the certificates of indebtedness could be bought with Hong Kong dollars.

Analysts said essentially the measure means that the two note-issuing banks must now buy the certificates of indebtedness with a foreign currency, which would most likely be the greenback.

The government will determine an exchange rate for the Hong Kong dollar and that particular foreign currency through discussions with the Hong Kong Bank and the Chartered Bank. This "official" rate is based on the economic strength of the colony but will not be disclosed.

An economics lecturer at the Chinese University of Hong Kong, Ho Yan-kai, said perhaps the action came a little too late.

He said that to stabilise the Hong Kong dollar by pegging it to a foreign currency is a long term method. It is a case of a government trying to fight against the market force with its own limited resources.

Dr Ho believed the government would try various methods to step up market intervention. But this will result in two exchange rates. One being the so-called official rate as pre-determined by the government, the other being the market rate.

If the difference between the two became too wide, Dr Ho explained, the government would intervene on the market. When the local unit fell too much below the official rate, the government would have to sell foreign currency to support the Hong Kong dollar, and vice versa. The government thus would have some sort of guidelines to follow in regard of the Hong Kong dollar's strength.

He speculated that the local currency would be pegged to its American counterpart, but [words indistinct] would be possible that other currencies, such as the Japanese yen or the sterling, were included, thus forming a basket of currencies.

C. W. Choi, a senior lecturer at the Hong Kong University, described the latest government move as a short-term measure aimed at dampening market speculation, but at least it showed that the government was ready to stabilise the local unit.

Earlier, Fei Yi-min, local delegate to the People's Congress, [NPC] claimed that the plunging of the Hong Kong dollar was due to some speculators who were making use of the 1997 issue to make a profit.

Speaking aboard a Hong Kong-bound flight, Mr Fei told newsmen that to maintain prosperity the dollar had to be stable.

"There should not be any relationship between the issue of the Hong Kong's future and the Hong Kong dollar.

"When the dollar falls, no one will benefit," he said.

Mr Fei added China will handle the matter once she regains sovereignty over Hong Kong.

The leftwing NEW EVENING POST [HSIN WAN PAO] yesterday blasted the Hong Kong Government for not taking action in preventing the local dollar from falling further.

In an editorial, it said no other government in the world, except the Hong Kong Government, would take an "irresponsible attitude" toward its own currency.

It accused the government of using the dollar crisis as a "political stake" instead of taking "basic steps" to alleviate the crisis.

"This gesture showed that the interests of the colonialists run contrary to those of the governed," it added.

Quoting a group of visiting Chinese economists, XINHUA reported that Hong Kong's economy would become more stable and prosperous as long as the Chinese unite and turn their wisdom to good account while the British authorities take a wise and cooperative attitude toward China's sovereignty over Hong Kong.

The scholars are Xu Dixin, Huan Xiang, Qian Junrui and Yu Guangyuan.

In an interview with XINHUA, they urged the British authorities to take a wise and cooperative attitude in maintaining Hong Kong's prosperity.

CSO: 4020/004

'SOURCES' INDICATE PROGRESS IN PRC-UK TALKS

HK240212 Hong Kong SOUTH CHINA MORNING POST in English 24 Sep 83 p 1

[Report: "Dollar Slumps as Peking Talks End"]

[Text] The Hong Kong dollar suffered the sharpest fall in its history yesterday when it plunged to a low of \$8.83 against the American dollar after the talks on the territory's long-term future ended with a bare two-paragraph statement setting the date for the next meeting.

At the same time the stock market suffered a 63.58 point fall to bring the Hang Seng Index to 785.48, chopping millions of dollars off the price of shares quoted on the stock exchange.

Rumours that crowds were forming outside banks to withdraw their money proved groundless however, though there has been an increasing demand from people at many levels of the community to put savings into United States dollars.

Meanwhile price rises on a wide range of goods at supermarkets are expected next week as the slump in the local unit begins to take effect and importers pass on the higher cost of goods to consumers.

Items likely to increase in price range from imported cars, expected to go up by 10 percent, to everyday household goods, and though no decision has yet been made on fuel prices, Shell has warned that prices will rise if the dollar exchange rates continues at its present high level.

The dollar's continuing woes are expected to take priority during top-level discussions here between visiting British Minister of State at the Foreign Commonwealth Office, Mr Richard Luce, the governor, and British Ambassador to Peking Sir Percy Cradock.

Mr Luce is due to arrive tonight. The governor, Sir Edward Youde, and the political adviser, Mr Robin McLaren, return from Peking in the morning.

The dramatic slump in the local dollar's value has prompted comment at home and abroad.

The senior unofficial member of the executive council, Sir Sze-yuen Chung, said the crisis of confidence in Hong Kong would continue until an acceptable arrangement was reached on the territory's future.

He urged the governor to issue a "substantial statement" on the latest round of talks.

In London, the prime minister, Mrs Margaret Thatcher, conceded there was "great financial and political uncertainty" about the future of Hong Kong.

"And it's that I think which is causing the drop in the Hong Kong dollar and also of course the drop in the Hong Kong Stock Exchange," she said.

The talks in Peking ended without any indication of progress. Instead of the hoped-for positive communique, the New China News Agency issued a terse two-paragraph statement which was also read out at the same time by the British Embassy spokesman, Mr Nigel Inkster.

However, sources close to the talks insisted to the SCM POST reporter in Peking that progress had been made.

They said there was no stalemate or deadlock, and denied that insuperable obstacles had been encountered.

The British and Chinese delegations will meet again in Peking on 19 and 20 October.

CSO: 4020/004

EXECUTIVE COUNCILLOR BLAMES PRC FOR SITUATION

HK240230 Hong Kong HONG KONG STANDARD in English 24 Sep 83 pp 1, 3

[Article by Charles Scanlon: "EXCO Man Blames it on Beijing"]

[Text] Senior unofficial executive and legislative council member, Sir Sze-yuen Chung, yesterday blamed Chinese leaders for contributing to a "crisis of confidence" in Hong Kong.

And he warned the Hong Kong dollar and the stock market would continue to fall until a settlement guaranteeing maintenance of our present lifestyle was reached.

"Jitters" over 1997 was the sole reason for the continued fall of the local dollar, he said, quoting recent comments of the chairman of the general chamber of commerce, Mr Jimmy McGregor.

Sir Sze-yuen was speaking at the Commonwealth Law Conference, where his views on the crisis of confidence were echoed by former attorney-general, Mr John Griffiths.

Mr Griffiths said a "crisis of confidence" that was "striking to see" had occurred since his departure from Hong Kong in June.

Sir Sze-yuen diverged from his original speech, which was generally optimistic in tone, to launch an attack on the comments on the future of Hong Kong emanating from Beijing.

"I would like to see both sides live up to their mutual agreement to maintain the confidentiality of the talks," he said.

But clearly angry at recent statements from leaders in Beijing, Sir Sze-yuen said the Chinese had broken this agreement by making "one sided statements" on the future of Hong Kong.

Sir Sze-yuen said the Chinese had broken the agreement, without consulting the British, and he said both sides should confine themselves to joint and agreed statements.

He said that there were no economic reasons for the drastic fall in the dollar. On the contrary, the currency should be strengthening with export led recovery.

"The reasons for the fall are obvious to some," he said, and he emphasised that the government could do nothing about the fall of the dollar until an acceptable agreements was worked out.

He spoke of the need for a "guarantee" that Hong Kong would be able to maintain its present lifestyle after 1997.

"And words are not sufficient to satisfy the people of Hong Kong that their lifestyle will be maintained," he said.

"One way to achieve this guarantee is to continue with British administration after 1997, and there could be other options to explore," said Sir Sze-yuen.

He refused to speculate, however, on other "guarantees" that might ensure maintenance of the present lifestyle, such as self-rule.

Asked how a guarantee of the status quo could be achieved in the light of recent statements from the Chinese capital, Sir Sze-yuen would not comment: "Ask the negotiators," he said.

He concluded by warning that although Hong Kong was small, its economic and financial strength was very great and that the effect of its political future would be "widespread."

And he expressed the hope that the British and Chinese negotiators were fully aware of this, and would come to a conclusion that would guarantee the prosperity and stability of Hong Kong.

China would be cautious to achieve a successful settlement on Hong Kong's future, because a failure would jeopardise aims for a peaceful reunification with Taiwan, he suggested.

In a later speech to the assembled legal delegates, Mr Griffiths, said totalitarian regimes were apt to use inspired leaks, divide and rule tactics, threats and bribes to get their way.

But he said Hong Kong people had over reacted to the statements coming from Beijing.

But like Sir Sze-yuen, Mr Griffiths spoke of the need for a "buffer" or guarantee that would be able to maintain the confidence of the business community in Hong Kong.

"British administration and the rule of law have provided that buffer against the instability in China over the past 30 years," he said.

"There is no doubt that the Chinese could run Hong Kong, but the question is whether they could retain the confidence of the entrepreneur and the investor," he said.

"A buffer between Chinese sovereignty over Hong Kong and the operation of the system is needed, but the exact nature of that buffer won't be known for some time, we must keep our nerves until then."

Although recent statements from Beijing have indicated that sovereignty and administration will not be separated, Mr Griffiths was still optimistic.

"When totalitarian regimes are pragmatic, they can do U turns," he said in response to questions, but he added, "it must be difficult in Beijing to see Hong Kong as it is, we must educate them."

Mr Griffiths stressed that the continued "rule of law" in Hong Kong was crucial to maintaining the confidence of the local and international business communities here.

Mr Griffiths was attorney-general of Hong Kong between 1979 and June this year, and he said although he was now back in private practice in England, he had maintained his savings in Hong Kong and in Hong Kong dollars.

"In 1967, the situation was worse, but those who maintained their confidence in the future came out well," he said.

Mr Griffiths said his confidence was based on the fact that China "would not wring the neck of the goose that lays the golden egg," namely the U.S. \$6 billion of foreign exchange they earn through Hong Kong.

"We all know that Deng Xiaoping now has the upper and middle levels of the bureaucracy, army and party wedded to the four modernisations, and these could not succeed if they lost 40 percent of their foreign currency," he said.

"Hong Kong will pass through hot fires during the negotiations, but I am confident the negotiations will end successfully," he said.

CSO: 4020/004

HONG KONG'S ECONOMIC PROSPECTS TO BE EXAMINED

HK280130 Hong Kong HONG KONG STANDARD in English 28 Sep 83 p 2

[Report by Stanley Leung]

[Text] A number of research units in China are expected to make their in-depth studies together, on economic prospects of Hong Kong leading to 1997, said a leading Chinese economist, visiting here.

After a seminar on China's economy yesterday, the president of the Chinese Academy of Social Sciences (CASS), Mr Ma Hong, said topics to be studied would include Hong Kong's future economic development, problems affecting its transition, as well as economic problems arising from the transition period up to 1997.

Mr Ma and Mr Jiang Yi-wei, director of the Institute of Industrial Economy of the CASS, are on a 1-week visit here, invited by the Chinese University of Hong Kong where Mr Ma will speak today on China's four modernizations programme.

Yesterday's seminar was attended by local economists from the two universities, the Polytechnics and Baptist College. Mr Ma was asked to comment on the falling dollar and the 1997 issue.

He told reporters that studies on Hong Kong's economic problems should not be conducted by individual units, but by cooperation of different units.

These units, he said, include the Hong Kong and Macao Office under the CASS, the Foreign Trade Department, International Economics Research Institute and the District Research Units in Shanghai. He declined to say when these studies would start.

Mr Ma said a number of economists from the CASS having visited the colony earlier, have started their studies on Hong Kong's future economic links with China and the problems before and after 1997.

According to Mr Ma, the transition period has already begun.

However, Mr Ma said, the CASS has not yet received any formal instructions from the government to starting studies on Hong Kong's economy. "We intend to recommend such studies," he added.

Asked whether Hong Kong would be included in the economic region of the River Pearl in 1997, Mr Ma said he understood that by that time, Hong Kong would have evolved into a special administrative zone of its own and would not therefore need to be affiliated with other areas, such as Guangzhou. "Hong Kong would still be a capitalistic area," he added.

On the recovery of sovereignty in 1997, Mr Ma said "it would benefit China, Hong Kong as well as Taiwan.

"But if anything untoward occurs before 1997, China would recover Hong Kong before the scheduled time, but the system here would not be changed," he said.

Regarding the Sino-British talks, Mr Ma said a joint statement on Hong Kong's future should be made by both governments in September next year.

If both governments do not reach agreement by that time, he said, the Chinese Government will then issue a unilateral policy statement on Hong Kong.

Concerning annual revenue earned from Hong Kong, Mr Ma said the income of U.S. \$4 billion (H.K. \$32 billion) should be viewed in perspective.

"Without China's strong support, Hong Kong would not have achieved its prosperity. China has paid the cost for this U.S. \$4 billion," he added.

Regarding the falling dollar, Mr Ma said he was not too familiar with this issue. He thought the Hong Kong government should take a "responsible" attitude towards the Hong Kong dollar, as it has a direct bearing on the lives of the people. He said there was no relationship between the [word indistinct] and the fall of the Hong Kong dollar.

Asked whether two types of currency could exist simultaneously in 1997, Mr Ma replied, "Why not? Soon after the liberation, we had different currencies. I don't see why this could not be so with Hong Kong, if need be."

On the future role of Hong Kong in China's economy, Mr Ma said our role in the four modernizations programme in 1997 would be very active. By that time, Shenzhen's role would not be lesser than Hong Kong's either.

In 1978, Mr Ma, during a short stay here, wrote a report which was recently published without his knowledge. He said he had not yet decided whether he would write a report on Hong Kong after this visit.

At yesterday's seminar, Mr Jiang introduced the contents of the 1983 edition of the Almanac of China's economy and sought opinion of more than 10 local leading economists from the University of Hong Kong, the Chinese University of Hong Kong, the Polytechnics and Baptist College. Other participants were the XINHUA NEWS AGENCY, the ECONOMIC REPORTS and the BEIJING DAILY (Hong Kong branch).

CSO: 4020/002

HONG KONG MONEY MARKET 'TOTALLY OUT OF HAND'

HK250052 Hong Kong SOUTH CHINA MORNING POST in English 25 Sep 83 p 1

[Report by Executive Editor Sarah Monks: "Market Has Gone 'Wild'"]

[Text] The foreign exchange market has gone "wild" and is "totally out of hand," the deputy secretary for monetary affairs, Mr A. R. Latter, conceded yesterday.

But he refuted firmly any suggestion that yesterday's hefty switch to gold suggested a public loss of confidence in Hong Kong's banking system or in the ability of the government to back the currency.

The SCM POST asked Mr Latter at the end of yesterday's trading for his impressions of events in the foreign exchange and gold markets.

"I agree the whole foreign exchange market has gone wild," said Mr Latter.

"I wouldn't use the phrase 'out of control' myself, but I wouldn't refute the suggestion that things are getting totally out of hand."

He said it was no good looking to government intervention to stem the slide.

"It would be great if we could. But we can't go on to an unlimited extent, as if it was an open door.

"People would just clean out the government of its U.S. dollars.

"There is no evidence anywhere in the world that governments can stem a fundamental slide in the currency."

Besides, Mr Latter added, Hong Kong had an open economy and "enormous political factors" had come into play.

As the Hong Kong dollar hit a new all-time low of \$9.50 against the greenback and the trade-weighted index a nadir at 57.2, gold hit a 3 1/2-year high on the local market at \$4,750 a tael.

Traditionally, people trying to secure their savings in times of political and economic uncertainty head for gold—and Hong Kong yesterday was a prime example.

The "metal under the bed" mentality gained ground despite the more recent habits of investors who prefer to use foreign currency deposits as hedges against drops in the local dollar.

Does it suggest that ordinary people are losing faith in Hong Kong's banking system or the government's backing of notes?

"No," said Mr Latter.

"It is a reflection of a tremendous loss of confidence in the Hong Kong dollar in the past weeks.

"People are seeking a refuge in other assets, which are gold and foreign currency notes or deposits."

"The banks are solvent. The system won't collapse, because people are switching from one currency to another."

Mr Latter said yesterday's decision by the Association of Banks at its regular meeting not to raise interest rates was "entirely understandable."

"The problem of the foreign exchange market is now so much one of the undermining of confidence.

"Raising the interest rate 2, 3, 4 or 5 percent may do something but will not attack the fundamental of the problem, which is a major erosion of confidence," said Mr Latter.

He said he could not make any predictions about what the dollar would do next.

But he did suggest people might reflect on the economic jolt they would get if their off-loaded Hong Kong dollars turned around at anything like the speed with which they went down.

Mr Latter wondered if the risk of keeping Hong Kong dollars were still one way (meaning a bad bet): "The prudent person is the one who does not take a position."

On whether there are enough U.S. and Hong Kong bank notes to cope with the present situation, Mr Latter said the question was "a non-issue."

Buying U.S. currency could be done without the physical use of bank notes, achieved by switching from Hong Kong dollar accounts to U.S. dollar accounts, where deposits still earn interest, or by the issuing of a banker's draft in U.S. dollars.

He was not surprised that smaller Chinese banks yesterday had run out of green-backs for customers who wanted to take them away.

For the Hong Kong dollar, there were "enormous supplies" here, including a buffer for heavy withdrawals during Chinese New Year and other contingencies.

All the Hong Kong dollars being dumped for U.S. dollars were immediately being recycled through the banks.

"I don't think there is any prospect that we'll run short. People may need to get used to slightly dirtier bank notes."

Mr Latter said he could not criticise banks which, at various stages yesterday morning, suspended trading in the U.S. dollar because the rate changes were too volatile.

He pointed out that those banks could not hedge their transactions in any way until Monday once the market closed.

"I don't think it is at all improper for banks to say they're not going to do switches today (Saturday)," Mr Latter said.

CSO: 4020/004

## HONG KONG ECONOMIC TRENDS

### HONG KONG DOLLAR DROPS TO RECORD LOW 24 SEPTEMBER

HK240520 Hong Kong Domestic Service in English 0500 GMT 24 Sep 83

[Text] The Hong Kong dollar dropped to a record low on the local foreign exchange market this morning, closing at \$9.60 to its American counterpart. The U.S. dollar buying rate was \$9.45. The Hong Kong Association of Banks did not step in to change interest rates.

The American unit opened at 8.82. Sterling remained unchanged all morning at 13.32. The effective exchange rate index dropped by 5 and 1/2 points to 57.2. The gold price soared by \$409 to close at \$4,705 a teal. Lorna workman spoke to the action chairman of the Hong Kong Association of Banks, Michael Brown, about the dollar's continued decline: [begin recording]

[Brown] We are seeing now the continuation of a weak trend on a much more artificial basis. We are seeing wider spreads and thin trading, and it's a simple reflection of a continuing lack of confidence, perhaps exaggerated.

[Workman] So you would agree with the comment that the decline in the dollar is more apparent than real?

[Brown] I think that is by large true; I think it's reasonably well established that the value of the Hong Kong dollar should be very much greater than it is today on strictly economic and commercial grounds.

[Workman] How much lower can the dollar go?

[Brown] Well, that, of course, is very difficult to say as well. There comes a time when the real requirement for Hong Kong dollars has to be expressed in the exchange rate, but where that point is I'm afraid it's impossible to guess at the moment. [end recording]

CSO: 4020/004

HONG KONG DOLLAR STRENGTHENS IN 26 SEPTEMBER TRADING

HK260636 Hong Kong Domestic Service in English 0500 GMT 26 Sep 83

[Text] The Hong Kong dollar strengthened sharply this morning following government statements that it will move to amend the exchange rate mechanism. The trend was further consolidated by a 3 percent rise in interest rates. Alan Hargraves reports.

[Begin recording] News that the government could change the workings of the exchange fund, giving it a greater role in determining exchange rates, sent the foreign exchange market into turmoil as soon as it opened. Early selling prices of the U.S. dollar were as high as 9.50, but there were no takers and the rate tumbled almost immediately. The second blow was struck shortly after 1030, when the Association of Banks announced a 3 percent increase in interest rates across the board, except for 1-, 2- and 3-month deposits, which will go up by 2 percent. The move lifts the prime rate to 16 percent. Savings deposits will now attract 10 percent.

In announcing the decision, the association said it wished to show its fullest determination to support the government in which it called this uncertain period. Acting chairman of the association, Michael Brown, told Radio Hong Kong the banks are right behind the government's proposals, developed over the weekend. [end recording]

[Begin Brown recording] The association met this morning to discuss the implications of the proposals which have emerged over the weekend, as have been reported in the press, as to the rearrangement of the exchange rate determination mechanism, and it was felt that the association could support these measures with a rise in interest rates in the general interest of improving the exchange rate.

[Hargraves] Are we looking at a package of proposals which would support the dollar rather than just single items?

[Brown] I think that's a fair way of describing the situation today.

[Hargraves] Previously, concern about raising interest rates has been how it will affect manufacturers. Have not they though, in fact, enjoyed a fairly good exchange rate recently, and that should counter the effects of the increase in interest rates?

[Brown] One hopes that exporters are already benefiting substantially from the weak Hong Kong dollar and that they themselves will not be hurt too much by the increased interest rates. [end recording]

[Begin Hargraves recording] Following the hectic currency movements early this morning, the exchange rate began to stabilize more than 1 hour ago around \$8.30 buying, \$8.50 selling. Foreign exchange dealers said there was a return of two-way business at that level.

The stock market was equally volatile. Early trading saw prices climbing substantially, with the Hang Seng Index up by 9 points at 11 am. But that was quickly reversed by the interest rate decision. However, in the last hour of trading prices have recovered. The gold price fell heavily, losing much of the ground it picked up when the currency slid last week. The metal finished the morning \$470 lower at \$4,2325 a tael. [end recording]

CSO: 4020/004

HONG KONG GOVERNMENT CONSIDERS TAKING OVER BANK

HK271358 Hong Kong Domestic Service in English 1000 GMT 27 Sep 83

[Monitored in progress]

[Text] The meeting has not finished yet, but what Mr Bremridge [Hong Kong financial secretary] has said so far is that the government is going to take over the Heng Lung Bank. He went through a process of looking at what has happened to the bank last year, a run on the bank's branches, that was the situation that worsened with the collapse of the DTC [Deposit-taking Company] dollar credit, with which he said the Heng Lung Bank had clear links. It seemed to come to a head this morning when the bank could not meet its commitment. What the government has said that it would cover its position for today so that checks and so on are honored. And, as from tomorrow, the government will take over the bank and will guarantee the position of the depositors. This is how Mr Bremridge actually made the statement:

[Begin Bremridge recording] As an emergency measure, the government has undertaken to cover the position for 1 day to avoid checks being dishonored. The government now intends to take longer term measures which will protect the bank's depositors. They would appreciate that the consequences of this legislation, if passed into law tonight, will be that the bank will be owned from tomorrow by the government, who will stand behind depositors. As we have been involved behind the scenes over the affairs of the Heng Lung Bank for many months, we have developed various contingency plans for any situation like this will arise. I now believe that the only satisfactory course for the government is to take over the Heng Lung Bank. It would in my opinion, be wrong to advance public money directly to an institution which the government cannot control, and in which, in its present ownership, we do not have confidence. It is not possible yet to quantify what the cost will be to the exchange funds from which expenses will be met. It is our intention that the Heng Lung Bank under sound management will in due course revert to private ownership on a basis yet to be determined. [end recording]

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